

# ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

A COMPONENT UNIT OF THE  
CITY OF ALBUQUERQUE, NEW MEXICO, USA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2004 THROUGH JUNE 30, 2005





**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**

**A Component Unit of the City of Albuquerque, New Mexico**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**July 1, 2004 through June 30, 2005**



Albuquerque Bernalillo County Water Utility Authority  
A Component Unit of the City of Albuquerque  
Comprehensive Annual Financial Report  
Year ended June 30, 2005

Table of Contents

**INTRODUCTORY SECTION**

Letter of Transmittal .....	1
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**FINANCIAL SECTION**

Independent Auditors' Report .....	8
Management Discussion and Analysis .....	10
Basic Financial Statements:	
Statement of Net Assets .....	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	18
Statement of Cash Flows .....	19
Notes to the Financial Statements:	
1 Summary of Significant Accounting Policies .....	21
2. Cash and Cash Equivalents .....	25
3. Accounts and Notes Receivable and Allowance for Uncollectible Accounts .....	28
4. Capital Assets .....	28
5. Long-Term Obligations .....	29
6. Defined Benefit Pension Plan .....	32
7. Defined Contribution Retirement Plan .....	33
8. Post-employment Benefits .....	33
9. Deferred Compensation.....	34
10. Risk Management .....	35
11. Restatement of Prior Period Net Assets .....	35
12. Transactions with Other Government Agencies .....	35
13. Commitments and Contingencies .....	36
14. Subsequent Events .....	37
Other Supplementary Information	
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Budget and Actual .....	38

**STATISTICAL SECTION - UNAUDITED**

Table		
I	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Last Ten Fiscal Years .....	40
II	Selected Water/Sewer System Statistics – Last Ten Calendar Years.....	42
III	Demographic Statistics .....	44
IV	Top Ten Major Employers.....	45
V	Water and Wastewater Users by Class and Meter Size – Last Ten Fiscal Years.....	46
VI	Water Consumption – Last Ten Calendar Years.....	47
VII	Revenue From Water and Sewer Charges and Other Operating Revenue – Last Ten Fiscal Years .....	48
VIII	Revenue From Utility Expansion Charges – Last Ten Fiscal Years.....	49
IX	Water System Annual Peak Demand and Top Ten Customers .....	50
X	Wastewater System Annual Average Flow and Top Ten Customers.....	51
XI	Miscellaneous Trend Analysis – Last Ten Fiscal Years.....	52
XII	Revenue Bond Debt Service Coverage – Last Ten Fiscal Years .....	53

**STATE COMPLIANCE AND OPERATIONAL FINDINGS**

Joint Powers Agreement .....	55
Schedule of Findings and Questioned Costs .....	56
Exit Conference .....	58



## **INTRODUCTORY SECTION**





# Albuquerque Bernalillo County Water Utility Authority

December 30, 2005

Board of Directors  
Albuquerque Bernalillo County Water Utility Authority

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Albuquerque Bernalillo County Water Utility Authority (Authority) for the fiscal year ended June 30, 2005. The purpose of the report is to provide the Board of Directors, the Authority's investors and other interested parties with reliable financial information about the Authority. The City of Albuquerque's Finance and Administration Department (City), as part of the memorandum of understanding between the City and the Authority, has prepared the CAFR in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority's management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the Authority.

The CAFR has been prepared using the financial reporting requirements as prescribed by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). As required by this GASB Statement, Authority management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed as an accompaniment to the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The Comprehensive Annual Financial Report consists of four major sections:

1. The Introductory Section includes the Transmittal Letter with a listing of the Authority's Officials and the Authority's Organizational Chart, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
2. The Financial Section is prepared in accordance with the GASB 34 requirements and includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2005, explanatory footnotes, and supplementary information.
3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.
4. State Compliance and Operational Findings includes certain schedules required by the State Auditor's Office.



## REPORTING ENTITY

The activities of the Authority closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. The Authority accounts for the operations that provide services on a continuous basis and that are substantially financed by revenues derived from user charges. The Authority uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. The Authority is a component unit of the City of Albuquerque.

## FORMATION AND ORGANIZATION

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from net revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. All policy-making for the System resides with the Authority. The Authority and the City entered into a Memorandum of Understanding dated January 21, 2004, as amended April 7, 2004, under which the City continues to operate the System. The memorandum of understanding runs through December 31, 2006. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

### Members of the Water Authority Board at June 30, 2005:

Commissioner Alan B. Armijo, Chair  
Councilor Martin Heinrich, Vice-Chair  
Councilor Michael J. Cadigan  
Mayor Martin J. Chavez  
Commissioner Teresa Cordova  
Commissioner Tim Cummins  
Councilor Tina Cummins

### Ex Officio Member at June 30, 2005:

Pablo Rael, Trustee, Village of Los Ranchos

## ECONOMIC CONDITION AND OUTLOOK

### Summary of Local Economy

Bernalillo County includes the City of Albuquerque with a population of about 484,000 compared with 594,000 for the County, which is New Mexico's largest city and economic center. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance, and Valencia Counties. Albuquerque is the dominant economic hub for the state of New Mexico and is home to more than 36% of the state's total employed population. The area's economy is diversified with retail, healthcare, government and manufacturing industries. In addition, with the significant presence of the University of New Mexico (UNM), Kirtland Air Force Base, Sandia National Labs (SNL), and an international airport to provide stability and offset fluctuations in private employment, Albuquerque will continue to fuel the overall economic health of the state.

The Albuquerque economy has an industry composition not unlike that of the U.S. as a whole, except that manufacturing is a smaller portion of employment. In the 1960s, manufacturing made up over 30% of the U.S. economy, but by 2003, the manufacturing share of employment had declined to 11%.

According to the University of New Mexico's Bureau of Business and Economic Research (BBER), economic expansion in the Albuquerque MSA slowed somewhat during the second quarter of 2005. Non-farm employment growth fell to 1.8%, following a 2.0% gain in the preceding quarter. Albuquerque MSA personal income growth was estimated at 5.5% during the second quarter of 2005. The second quarter unemployment rate was 5.5%, up slightly compared to the previous year.



As in the State as a whole, the bulk of the new jobs came in just three sectors: construction, educational and health services and government. Construction employment stood at 2,200 higher than a year ago, an increase of 8.6%. Housing construction in the City of Albuquerque in the second quarter was very strong, posting a 60.9% gain, to 1,995 units, the highest since 1984. Single-family housing units increased 30.1% to 1,595 units, the highest on record (since 1969). The large increase was most likely the result of builders rushing to obtain permits before the new Albuquerque impact fee ordinance took effect July 1. Multi-family authorizations jumped 2,757.1% to 400 units from 14 units a year ago. Other construction projects included the Microsystems Engineering and Sciences Applications complex, the Center for Integrative Nanotechnologies, the rebuilding of the Coors/I-40 intersection, the Commons at Uptown, the Sandia Pueblo luxury hotel and the UNM hospital expansion.

The total dollar value of construction contracts awarded during the second quarter was up 62.2%. Residential contracts declined 0.5%, but non-residential contracts rose 42.6% and contracts for other buildings increased 737.6%.

The second-largest job increase came in educational services, health care and social assistance, which exhibited a gain of 2,033 jobs, up 4.5%.

The government sector added 1,600 jobs, up 2.1%. Most of the new jobs (1,167) came at the local level with the largest share of those mainly in education. State government employment was up slightly at 0.2%.

Employment in professional, scientific, technical services and retail trade exhibited (net) gains of between 600 and 900 jobs. Manufacturing, wholesale trade, leisure and hospitality, transportation/warehousing/utilities and information sector were lower than a year ago but most of the losses were small.

#### Future Economic Outlook

Employment growth remains moderate with the 2nd quarter of 2005 showing growth of 1.8%. However, boosted by a strong manufacturing sector, non-farm employment growth is projected to increase by 2.4 percent in 2006 and 2.3 percent in 2007, per BBER. The local high tech industry is growing and many of the small manufacturing firms have experienced substantial growth. The broadening of the industrial base to include aviation and mattress production will help. Albuquerque continues to grow and prosper. It is believed that Albuquerque is well positioned to attract new investment by suppliers, customers, and other producers. SNL is a source of strength for the local economy. SNL has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal has become even more critical. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many new and inexpensive answers to medical and materials sciences. A large facility will be built at the labs as a joint project between SNL and Los Alamos National labs to expand abilities in this area.

#### Accomplishments in Fiscal Year 2005

- Worked successfully with the New Mexico Farm and Livestock Bureau, Middle Rio Grande Conservancy District, Greater Albuquerque Chamber of Commerce, New Mexico Legislature Interim Committee on Water and Natural Resources and the New Mexico Legislature to pass Senate Bill 879 which provided additional clarification to 72-1-10 to allow the Water Authority to operate as a regional water utility.
- Implemented a cost of service rate schedule for wastewater, which reduced residential sewer bills by 18%. Adopted a water rate schedule based on cost of service to be effective January 2006. New rates will be consumptive based to reward conservation and increase cost for high water users at the 300% and 400% level. Excess water usage surcharges moved from class average to individual average. Service fees based on meter size instead of line size with customers encouraged to reduce service size. The overall rate structure had not been analyzed for over 15 years. The water and wastewater rate schedules are revenue neutral so no additional revenue is realized from the implementation of these new rate schedules.
- Approved revision of Utility Expansion Charges (UECs) to provide a more accurate basis for the connection costs for water and wastewater service. The UECs will be phased in over a three-year period beginning in fiscal year 2006



- Developed a plan to allocate \$7 million per year from the Authority for completion of the Valley Utilities Project in the North and South Valley areas and to leverage additional federal funding. The goal of the project is to eliminate 8,000 septic tanks to protect the public health and safety by protecting ground water quality.
- Completed a \$6 million Odor Control Project at the Southside Water Reclamation Plant. Phase II to further mitigate odors is underway.
- Began construction of the \$360 million San Juan Chama Drinking Water Project along with water reuse and reclamation projects to provide a long term supply of water for the service area.
- Secured \$130 million in financing for phase one of the San Juan Chama Drinking Water Project and basic capital needs by partnering with the New Mexico Finance Authority.
- Expanded service area to include 1,000 new units of housing on Kirtland Air Force Base, 675 units for the Vista Vieja Subdivision on the northwest mesa and the Westland Business Center to service Tempur-Pedic , a mattress manufacturing company, at no expense to ratepayers.
- Completed the benchmarking process and initiated preliminary work for a peer review for the QualServe Program through the American Water Works Association, to continue to improve operations and reduce costs by implementing best practices in the industry.
- Initiated an aggressive policy to reduce unaccounted for water from 11% to 7% over four years through aggressive leak detection, spending \$22 million annually on line rehab and replacement and fire hydrant inspection and repair in coordination with City and County fire departments.
- Initiated an asset management program for capital needs to focus on improving aging infrastructure.
- Initiated working relationships with the Village of Corrales on the potential for sewer service, Carnuel/East Mountain area for water and sewer service, and Mesa del Sol for water and sewer services.
- Received the Authority's first credit ratings from the three major credit rating agencies: AA rating from Standard and Poor's, Aa3 rating from Moody's and AA rating from Fitch.
- Completed the North I-25 Reuse project to provide non-potable water for irrigation, turf and industrial uses.
- Received a National Pollutant Elimination Discharge System permit from the EPA to continue discharging effluent while meeting the standards imposed by the Isleta Pueblo for discharge.
- Replaced gas chlorine with sodium hypochlorite for disinfection of drinking water at 29 facilities.
- Completed the implementation of a new billing system to provide better information to customers and in a more interactive format. System went live July 5, 2005.
- Formed a working partnership with United States Bureau of Reclamation, Bureau of Land Management and Corps of Engineers on the storage and release of water for environmental and recreational purposes.



## FINANCIAL INFORMATION

The Authority has entered into a memorandum of understanding (MOU) with the City whereby the City provides day-to-day management of the utility as well as financial and internal services for the operations of the Authority. As part of the MOU, the Authority has adopted existing City policies that govern the operations of the Authority until they have been replaced by Authority specific policies.

### Internal Control Structure

Through the MOU, the City's Department of Finance and Administrative Services is responsible for providing financial services for the Authority including financial accounting and reporting, payroll and accounts payable disbursement functions, cash and investment management, debt management, purchasing, information systems, property management and risk management. The Authority in coordination with City management is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the Authority are protected from loss, theft or misuse and to ensure adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Accounting principles for governmental entities are embodied in pronouncements of the Governmental Accounting Standards Board. The Financial Accounting Standards Board, the American Institute of Certified Public Accountants and the Government Finance Officers Association also impact and influence current governmental accounting standards. The internal control structure is designed to provide reasonable, but not absolute, assurance that control objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived while the establishment of an appropriate internal control structure requires estimates and judgments from management. All internal control evaluations occur within the above framework. We believe that the Authority's and the City's current internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

### Budgetary Controls

The fiscal year 2005 budget for the Authority was the first budget developed by the Authority. This budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2005. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2005, it is at the fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2005 have been reappropriated in fiscal year 2006.

### Cash Management

Pursuant to the MOU, the Authority participates in the pooled cash investment program as outlined in the Fiscal Agent Ordinance of the City. Cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. The City's policy is to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. Total investments and deposits in the City's common investment pool were \$639.2 million at June 30, 2005. The Authority had an average of \$145.6 million invested in the City's investment pool. There was a significant increase in the Authority's average investment for fiscal year 2005 due to borrowings for the San Juan Chama drinking water project. The City portfolio average yield for fiscal year 2005 was 2.475%. Interest earned by the Authority totaled \$3.3 million for fiscal year 2005.

### Risk Management

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. Transfers to the Risk Management fund from the Authority for fiscal year 2005 were \$4.49 million compared to transfers in the prior year of \$3.78 million. Total claim reserves (current and long-term), including the Authority, were \$50.4 million as of June 30, 2005, a \$2.8 million increase from \$47.6 million in the previous year.



## OTHER INFORMATION

### Independent Audit

New Mexico state law requires that independent public accountants perform an annual audit of the Authority's accounting records and Comprehensive Annual Financial Report. The firm of Neff & Ricci LLP has performed the audit for the year ending June 30, 2005. The independent auditors' report on the financial statements and other supplementary information is included in the financial section of this report.

This report has been prepared to meet the standards of the Government Finance Officers Association (GFOA) of the United States and Canada and will be submitted to GFOA for review.

### City of Albuquerque Comprehensive Annual Financial Report

As previously discussed, the Authority is a component unit of the City of Albuquerque. Additional information relating to the Authority can be found in the City of Albuquerque's Comprehensive Annual Financial Report. The report can be obtained by contacting the Director's office for the Department of Finance and Administrative Services, Room 11015, One Civic Plaza, N.W., Albuquerque, New Mexico 87102.

### Acknowledgments

We would like to thank the Board for their support in the planning and implementation of the financial affairs of the Authority. The Authority also wishes to express its appreciation to the City's Department of Finance and Administrative Services who contributed to the preparation of this report and recognize in particular the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report.

Respectfully submitted,



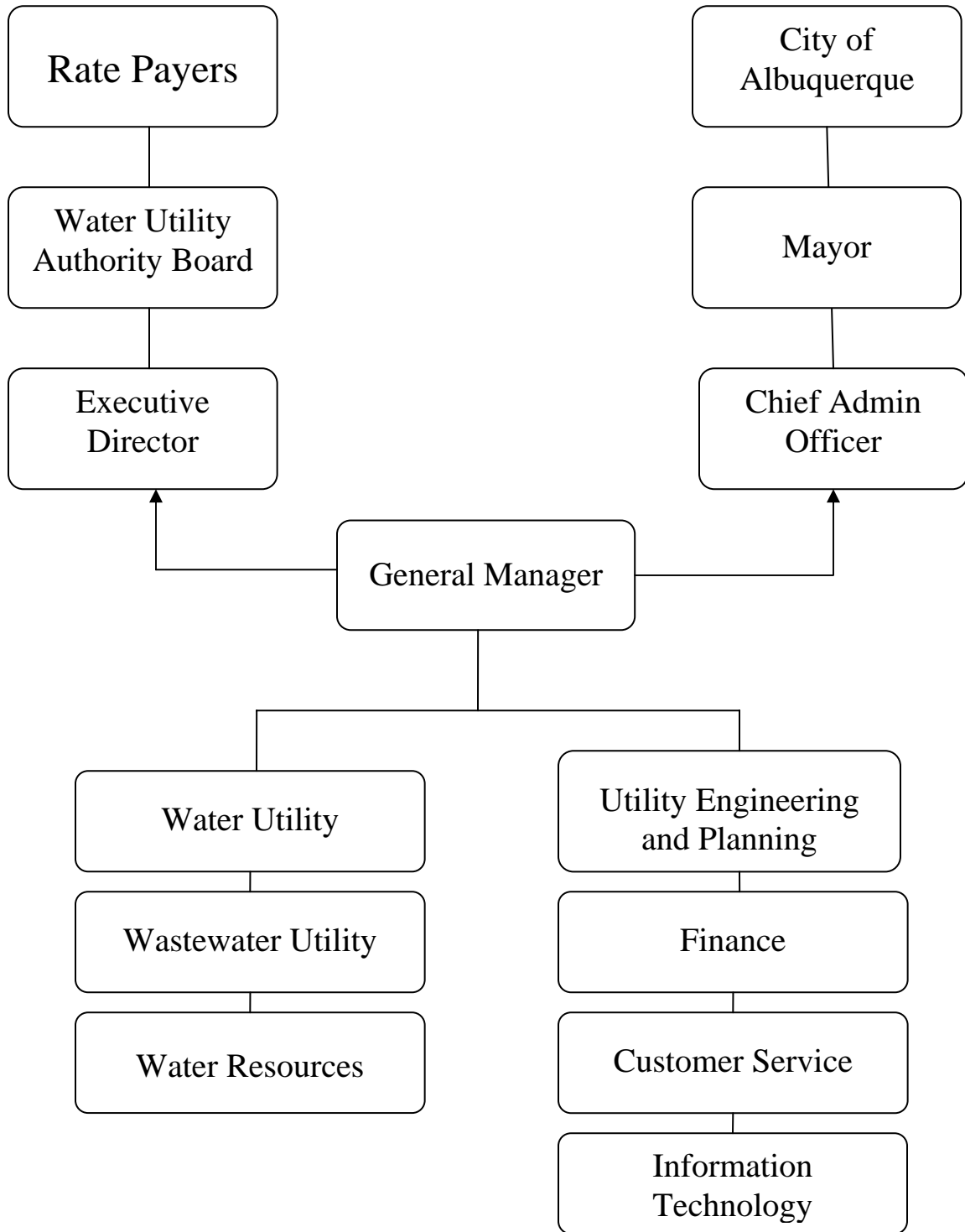
Mark S. Sanchez  
Executive Director



Tom Ortiz  
Financial Analyst



# Albuquerque Bernalillo County Water Utility Authority





## **FINANCIAL SECTION**





**Independent Auditors' Report**

**Albuquerque Bernalillo County  
Water Utility Authority**

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005, the changes in its financial position, its cash flows, and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report for the City of Albuquerque dated December 22, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



**Albuquerque Bernalillo County  
Water Utility Authority**

**The Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.**

*Neff + Ricci LLP*

**Albuquerque, New Mexico  
December 22, 2005**



# **ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**

**A Component Unit of the City of Albuquerque, New Mexico**

**Management's Discussion and Analysis, continued**

**June 30, 2005**

As management of the Albuquerque Bernalillo County Water Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2005. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal.

## **FINANCIAL HIGHLIGHTS**

The assets of the Authority exceeded its liabilities at the close of fiscal year 2005 by \$642 million (net assets). Of this amount, \$37.4 million (unrestricted net assets) may be used to meet the Authority's ongoing obligations to creditors in subsequent accounting periods.

The Authority's total net assets increased by \$43.5 million during the year.

During the fiscal year, major sources of cash were provided by operating activities of \$64 million, service expansion charges \$12 million, proceeds from loans of \$119 million and capital grants \$10 million. Major uses of cash during the fiscal year were for acquisition and construction of capital assets of \$100 million and debt retirement of \$40 million.

The Authority's total long-term debt increased by \$85 million (27.4%) during the current year. The key factors in this change were the New Mexico Finance Authority (NMFA) loan of \$118 million, debt reduction payments, and liquidations of accrued liabilities totaling \$32.5 million.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This comprehensive annual financial report also contains other supplementary and statistical information in addition to the basic financial statements.

### **Basic Financial Statements**

The Authority's financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating, absent extraordinary events.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the Authority's net assets changed. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *statement of cash flows* reports cash receipts, cash payments and net changes in cash resulting from operating activities, capital and related financing activities and investing activities for the fiscal year.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and statistical information.



# ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

A Component Unit of the City of Albuquerque, New Mexico

Management's Discussion and Analysis, continued

June 30, 2005

## FINANCIAL ANALYSIS

As previously noted, net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating.

The following is a comparative analysis of net assets for the most recently completed fiscal year and the prior fiscal year.

### Condensed Statements of Net assets (Amounts in thousands)

	2005	2004*	Percent Change 2004 - 2005
<b>Assets:</b>			
Current and other assets	\$ 204,260	\$ 153,072	33.4%
Capital assets, net	<u>817,229</u>	<u>733,274</u>	11.4%
<b>Total assets</b>	<u><b>1,021,489</b></u>	<u><b>886,346</b></u>	<b>15.2%</b>
<b>Liabilities:</b>			
Current and other liabilities	68,388	61,497	11.2%
Long-term bonds and notes payable	310,014	225,241	37.6%
Other noncurrent liabilities	<u>1,080</u>	<u>1,149</u>	-6.0%
<b>Total liabilities</b>	<u><b>379,482</b></u>	<u><b>287,887</b></u>	<b>31.8%</b>
<b>Net assets:</b>			
Invested in capital assets, net of debt	566,451	517,182	9.5%
Restricted	38,112	27,970	36.3%
Unrestricted	<u>37,444</u>	<u>53,307</u>	-29.8%
	<u><b>\$ 642,007</b></u>	<u><b>\$ 598,459</b></u>	<b>7.3%</b>

\* as restated

In fiscal year ended June 30, 2005, assets exceeded liabilities by \$642 million. The largest portion, 88%, is from the Authority's investment in capital assets less any related debt used to acquire those assets. This investment in capital assets net of related debt increased by \$49 million in fiscal year 2005. Since capital assets themselves are not intended to be used to liquidate liabilities, resources to repay the debt associated with the capital assets must be provided from other sources. These capital assets are used to provide water and wastewater service and are not available for future spending.

At the end of fiscal year 2005, the Authority had positive balances in all three categories of net assets.



# ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

A Component Unit of the City of Albuquerque, New Mexico

Management's Discussion and Analysis, continued

June 30, 2005

The following is a comparative analysis of the changes in net assets for the most recently completed fiscal year and the prior fiscal year.

## Condensed Statements of Changes in Net assets (Amounts in thousands)

	2005	2004	Percent Change 2004 - 2005
Operating revenues	\$ 126,622	\$ 132,061	-4.1%
Operating expenses	110,200	103,642	6.3%
Operating income	16,422	28,419	-42.2%
Nonoperating income (expenses)	6,277	4,648	35.0%
Capital contributions	20,849	28,288	-26.3%
Change in net assets	43,548	61,355	-29.0%
Transfer of assets net of liabilities from			
City of Albuquerque	-	537,104	100.0%
Net assets, July 1, as restated	598,459	-	100.0%
Net assets, June 30	\$ 642,007	\$ 598,459	7.3%

### Analysis of Changes in Net Assets

Water revenue of \$54.5 million is a decrease of \$3.3 million as compared to fiscal year 2004, with water residential sales at \$22.7 a decrease of \$3.4 million or 13%, due to unusually high precipitation and increased conservation efforts. The Authority pumped approximately 3.5 billion gallons less water in fiscal year 2005 versus fiscal year 2004. Annual precipitation of 12.19 inches was 3.05 inches more than fiscal year 2004 and above the average rainfall of 8.50 inches.

San Juan Chama Strategy Implementation revenue of \$23.9 million is \$1.9 million or 8.6% higher than last year. This increase was due to customer growth and a 4.5% rate increase effective May 1, 2004. Revenues generated from this fee are designated for the purpose of the San Juan Chama Drinking Water Project.

Wastewater revenue of \$47.3 million is a decrease of \$4 million compared to fiscal year 2004, with sewer residential sales at \$20.6 million a decrease of \$2.3 million or 10%, due to unusually high precipitation and increased conservation efforts.

Operating expenses of \$110.2 million is an increase of \$6.6 million as compared to fiscal year 2004. The increase is due to several contributing factors: increases in depreciation expense, professional services, cost of living adjustment, supplies and contractual services.

Depreciation expense increased by \$3.5 million from the previous year and continues to increase as water and wastewater infrastructure is placed into service to our customers.

Contractual services expense increased by \$.5 million from the previous year due to increases in temp force staffing in several of the Utility's operating divisions. The most notable would be temporary staffing in the Utility's customer service division.

Supplies expense increased by \$.5 million from the previous year due to cost increases for chemicals.



# ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

A Component Unit of the City of Albuquerque, New Mexico

Management's Discussion and Analysis, continued

June 30, 2005

Salaries and wages increased by \$1.3 million from the previous year due to cost increases primarily for cost of living adjustments and benefits. In addition, the Authority's professional service costs increased from the prior year by \$.7 million due to the continued construction of the San Juan Chama Project.

Non-operating revenue of \$35.7 million is a decrease of \$8.3 million compared to fiscal year 2004, due to two contributing factors. First, a \$2.7 million decrease in Utility Expansion Charges due to a decrease in new accounts in fiscal year 2005, and second, a \$7.4 million decrease in capital contributions due to a decrease in private contractor's infrastructure. These decreases were offset by increases in the Authority's interest earnings on investments during the fiscal year.

Non-operating expenses of \$9.1 million are a decrease in expenses of \$2.0 million due to a decrease in interest expense on current revenue bonds. The decrease in interest paid on current revenue bonds is due to declining interest owed on remaining debt service.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets (net of depreciation, in thousands)

	2005	2004	Percent Change 2004 - 2005
Land *	\$ 23,146	\$ 22,956	0.8%
Buildings and improvements	801	847	-5.4%
Improvements other than buildings	683,474	622,136	9.9%
Machinery and equipment	21,810	13,133	66.1%
Capitalized assets	729,231	659,072	10.6%
Construction work in progress *	87,998	74,202	18.6%
Total capital assets	\$ 817,229	\$ 733,274	11.4%

\* assets not being depreciated

### Capital Assets

The Authority's gross investment in capital assets, excluding construction work in progress at June 30, 2005 was \$1.47 billion. The net capital assets after depreciation were \$817 million. Capital asset additions during fiscal year 2005 were \$131 million.

#### Major additions or improvements included:

##### Treatment Plant Renovation - \$9.3 million

Various plant improvements, including rehabilitating and providing new odor control equipment. The odor control equipment is completed and operational

##### Valley Utilities Projects - \$7 million

Projects include low income water and sewer connection assistance. More assistance is anticipated as work continues on the Polk and Area K sewer systems. Work on Area I & J Sewer Systems with design work being initiated by Bernalillo County Public Works Department. Project work continued on Area K Vacuum Sewer System and phase 2 of the Polk Vacuum Sewer Systems.

##### MIS Development - \$8.2 million

The key project in this program is the development of a new Customer Information System (CIS). Activities include TMG Consulting quality assurance work, SPL Worldgroup implementation services, and procurement of the PeopleSoft CIS software. Additional hardware equipment and temporary staffing is also included in the \$6.5 million CIS project. Also, work continues on the Maximo-GIS conversion (\$1.7 million) which will enable improved work order disposition and asset management tied to GIS-based assets.



## **ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**

**A Component Unit of the City of Albuquerque, New Mexico**

**Management's Discussion and Analysis, continued**

**June 30, 2005**

### **Duranes Pump Station Replacement - \$3.8 million**

Completed work on this project to replace a 50-year old pump station facility in the North Valley. Overall project cost is \$4.3 million, which is being partially funded from a \$3.6 million NMFA loan.

### **San Juan Chama Water Treatment Plant and Pipelines - \$47.4 million**

This project provides for the direct use of renewable surface water supplies in lieu of using deep aquifer groundwater supplies. Construction of site work preparation for the new water treatment plant is nearing completion, pipeline crossing of the Rio Grande will be completed in the fall of 2005, and the new Water Treatment Plant is under construction.

### **North I-25 Reuse Non-Potable Water System - \$10.0 million**

This project provides non-potable water to many public parks and golf courses extending to the Balloon Fiesta Park (already in service) and eastward to Tanoan Golf Course. All pipelines, pump stations and reservoirs were completed by the end of the fiscal year and are in service.

### **Volcano Reservoir #2 - \$3.2 million**

Construction of Volcano Reservoir No. 2 will supplement and provide backup storage service to existing customers in the Volcano Trunk area.

### **Interceptor Sewer Rehab - \$5.4 million**

This project is to complete the replacement of Interceptor Line 142a upstream of the Southside Water Reclamation Plant.

### **El Pueblo Road Odor Control Station - \$3.1 million**

Project is currently under construction for the El Pueblo Road Odor Control Station.

More information can be found in Note 4 of the accompanying financial statements.

### **Debt Administration**

For fiscal year 2005, the Authority had approximately \$349.3 million in bonds, notes and loans outstanding, an increase of \$90.1 million from the prior year. Net revenues of the system secure debt issued by the Authority. Debt coverage for fiscal year 2005 was 1.63 times compared to the 1.33 times that is required by Ordinance. Debt issued for basic capital needs is scheduled for 12 year retirement while debt issued for San Juan Chama Drinking Water Project is scheduled for 20 year retirement.

The Authority secured debt financing in fiscal year 2005. The Authority secured a \$118 million loan from NMFA in which \$82 million is to be used for the San Juan Chama Project and \$36 million for the Utility's Basic System Capital Needs.

More detailed information can be found in Note 5 of the accompanying financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

According to forecasts by the University of New Mexico Bureau of Business and Economic Research (BBER), the outlook for the Albuquerque MSA economy remains good for the next couple of years. Boosted by a strong manufacturing sector, non-farm employment growth is expected to increase from 2.1% in 2004 and 2005 to 2.4% in 2006 and 2.3 % in 2007. Personal income growth will remain in the 5.0% to 6.0% range through 2007. The unemployment rate is expected to hold in the neighborhood of 5.0%.

Strength during the next few years will come from several sectors. Manufacturing is expected to add about 3,000 jobs by 2007. Employment growth in the government sector will remain in the 2.0% range. The educational services/health care sector will be a third significant source of new jobs, but will experience declining growth. Employment growth will reach 4.5% in 2005 but slip to near 2.5% in 2006 and remain there thereafter. Construction employment growth will follow a similar pattern, robust in 2005 (6.3%) but slowing in 2006 and leveling off. Housing construction growth in Albuquerque will no longer enjoy double-digit growth, or even single digit for that matter. Following the tiniest of gains in 2005, growth will turn negative in 2006 and remain negative throughout. Professional, scientific and technical services and management/admin/support will average at least 2.0% annual growth. Growth of 1.0% to 2.0% annually will be exhibited by retail trade, other services, transportation, warehousing and utilities.

The Authority's customer base has increased from 162,000 in fiscal year 2004 to 164,300 in fiscal year 2005. On average, the customer base has been increasing at a rate of 2% per year. This increase in customers has been tempered by the decrease in consumption as a result of water conservation.



# **ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**

**A Component Unit of the City of Albuquerque, New Mexico**

**Management's Discussion and Analysis, continued**

**June 30, 2005**

From calendar year 2000 to 2005 water production has decreased 12.1%, from 37.1 billion gallons per year to 31.5 billion gallons per year. Unaccounted for water (water produced over water billed) also decreased from 11.5% to 10.5% in fiscal year 2005.

The Authority implemented new wastewater rates effective July 1, 2004. The new wastewater rate schedule was developed using a cost of service model. As a result of this new schedule, rates changed both by class and within class but there was no overall rate increase and the new rate schedule was revenue neutral in fiscal year 2005. The water rate portion of the comprehensive rate study was approved by the Board and will be implemented in January 2006. The approved water rate schedule is based on the cost of service model and is revenue neutral. Utility Expansion Charges (UECs) were revised to provide a more accurate basis for the connection costs for water and wastewater service. The UECs will be phased in over a three-year period beginning in fiscal year 2006.

Total Authority operating fund revenues for fiscal year 2005 was \$126.6 million or \$5.4 million below fiscal year 2004. This is a decrease of 4.09% below fiscal year 2004 and was \$13.9 million below the approved fiscal year 2005 budget. The decrease was due to a decrease in water usage because of above average moisture that the service area received during the fiscal year and the continued impact of water conservation.

Construction began on the San Juan Chama Drinking Water Project during fiscal year 2005. Activities under construction included the diversion facility, water treatment plant and numerous portions of the transmission pipeline network. The \$360 million project is scheduled to be operational in 2008. The first phase of funding in the amount of \$82 million was secured through a New Mexico Finance Authority loan.

The basic capital program is \$36 million for fiscal year 2005. Cash transfers from the operating program provide funding for 50% of the capital costs with the other 50% funded from debt financing. Approximately \$7 million of the basic capital program will be used to support water and sewer expansion in the Authority's North and South Valley service areas. The Authority secured funding from the New Mexico Finance Authority in the amount of \$36 million to support the basic capital program for fiscal year 2005 and fiscal year 2006.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Albuquerque Bernalillo County Water Utility Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Room 5012, One Civic Plaza N.W., Albuquerque, New Mexico 87102.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

**ASSETS**

**Current assets:**

Cash, investments, and accrued interest	\$ 5,061,038
Cash with fiscal agents held for debt service	37,468,373
Accounts receivable, net of allowance for uncollectible accounts	9,389,901
Notes receivable, current portion	1,086,835
Due from other governments	<u>414,377</u>
<b>Total current assets</b>	<b><u>53,420,524</u></b>

**Noncurrent assets:**

Long-term accounts and notes receivable	<u>6,087,640</u>
<b>Restricted assets:</b>	
Cash, investments, and accrued interest	113,562,178
Investment with fiscal agents	1,305,116
Escrow deposits	<u>145,398</u>
<b>Total restricted assets</b>	<b><u>115,012,692</u></b>
<b>Capital assets:</b>	
Land	23,146,184
Buildings and improvements	2,257,926
Improvements other than buildings	1,404,190,276
Machinery and equipment	<u>39,304,258</u>
	1,468,898,644
Less accumulated depreciation	<u>739,667,785</u>
Net capital assets	729,230,859
Construction work in progress	<u>87,998,458</u>
<b>Total capital assets</b>	<b><u>817,229,317</u></b>
<b>Other:</b>	
Capitalized bond issuance costs	1,138,163
Purchased water rights, net of accumulated amortization of \$9,138,383	<u>28,600,649</u>
<b>Total other</b>	<b><u>29,738,812</u></b>
<b>Total noncurrent assets</b>	<b><u>968,068,461</u></b>
<b>Total assets</b>	<b><u>1,021,488,985</u></b>

See Notes to Financial Statements



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF NET ASSETS, continued**  
**June 30, 2005**

**LIABILITIES**

**Current liabilities:**

Accounts payable	2,071,227
Accrued employee compensation	2,338,476
Deposits	460,378
Accrued interest payable	487,287
Payable from restricted assets:	
Contracts and other payables	19,135,695
Current portion:	
Bonds and notes payable	33,050,000
Water rights and loan agreements	6,255,273
Accrued interest	<u>4,589,445</u>

<b>Total current liabilities</b>	<b><u>68,387,781</u></b>
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**Noncurrent liabilities:**

**Long-term payable:**

Bonds and notes payable, net of current portion, discounts and premiums	149,144,319
Water rights contract and loan agreements	<u>160,870,203</u>
<b>Total long-term payable</b>	<b><u>310,014,522</u></b>

**Other:**

Accrued vacation and sick leave pay	580,155
Deferred credits and other liabilities	<u>500,000</u>
<b>Total other</b>	<b><u>1,080,155</u></b>

<b>Total noncurrent liabilities</b>	<b><u>311,094,677</u></b>
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<b>Total liabilities</b>	<b><u>379,482,458</u></b>
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**NET ASSETS**

Invested in capital assets, net of related debt	566,451,130
Restricted for:	
Debt service	11,490,993
Construction	26,620,816
Unrestricted	<u>37,443,588</u>
<b>Total net assets</b>	<b><u>\$ 642,006,527</u></b>

See Notes to Financial Statements



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**Year ended June 30, 2005**

**Operating revenues:**

Charges for services	<u>\$ 126,622,183</u>
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**Operating expenses:**

Salaries and fringe benefits	26,796,490
Professional services	1,138,803
Utilities	7,935,163
Supplies	2,939,223
Travel	23,809
Fuels, repairs, and maintenance	7,252,222
Contractual services	4,422,260
Other operating expenses	12,908,751
Depreciation	46,409,458
Amortization	<u>374,323</u>

Total operating expenses	<u>110,200,502</u>
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Operating income	<u>16,421,681</u>
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**Nonoperating revenues (expenses):**

Interest on investments	1,548,942
Gain (loss) on disposition of capital assets	(356,719)
Interest expense	(8,405,571)
City water service expansion charges	12,404,189
Bond issue amortization	(142,523)
Expenses incurred for outside agency	(160,824)
Other	<u>1,389,894</u>

Total nonoperating revenues (expenses)	<u>6,277,388</u>
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Income before capital contributions and transfer of assets	22,699,069
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Capital contributions	<u>20,848,605</u>
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Change in fund net assets	43,547,674
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Net assets, July 1, as restated	<u>598,458,853</u>
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Net assets, June 30	<u>\$ 642,006,527</u>
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See Notes to Financial Statements



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF CASH FLOWS**  
**Year ended June 30, 2005**

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 128,489,742
Cash payments to employees for services	(27,498,847)
Cash payments to suppliers for goods and services	(38,690,441)
Miscellaneous cash received	<u>1,389,894</u>
<b>Net cash provided by operating activities</b>	<u><b>63,690,348</b></u>
<b>Cash flow from noncapital financing activities:</b>	
Principal paid on water rights contract	(792,354)
Interest paid on water rights contract	(608,880)
Purchased water rights	<u>(438,392)</u>
<b>Net cash used for noncapital financing activities</b>	<u><b>(1,839,626)</b></u>
<b>Cash flows from capital and related financing activities:</b>	
Proceeds from notes payable	119,424,728
Capitalized bond issuance costs	(832,719)
Principal paid on revenue bond maturities	(32,695,000)
Interest and other expenses paid on revenue bond maturities	(8,724,157)
Principal paid on notes payable	(6,155,285)
Interest paid on notes payable	(3,055,875)
Acquisition and construction of capital assets	(100,203,271)
Capital grants received	9,768,538
City water service expansion charges	12,404,189
Payments on behalf of other agencies	(160,824)
Proceeds from sale of capital assets	<u>18,961</u>
<b>Net cash used for capital and related financing activities</b>	<u><b>(10,210,715)</b></u>
<b>Cash flows from investing activities:</b>	
Interest received on investments	<u>3,256,392</u>
<b>Net increase in cash and cash equivalents</b>	<b>54,896,399</b>
<b>Cash and cash equivalents, July 1</b>	<u><b>102,645,704</b></u>
<b>Cash and cash equivalents, June 30</b>	<u><u><b>\$ 157,542,103</b></u></u>

See Notes to Financial Statements



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF CASH FLOWS, continued**  
**Year ended June 30, 2005**

**Reconciliation of operating income to net cash  
provided by operating activities:**

Operating income	\$ 16,421,681
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	46,409,458
Amortization	374,323
Miscellaneous cash received	1,389,894
Decrease (increase) in assets:	
Receivables	1,967,559
Increase (decrease) in liabilities:	
Accounts payable	(2,070,210)
Deferred revenue	(100,000)
Accrued employee compensation and benefits	<u>(702,357)</u>
Net cash provided by operating activities	<u>\$ 63,690,348</u>

**Cash and cash equivalents at June 30 consist of:**

Current assets:	
Cash, investments, and accrued interest	\$ 5,061,038
Restricted assets:	
Cash, investments, and accrued interest	113,562,178
Cash with fiscal agents	37,468,373
Investment with fiscal agents	1,305,116
Escrow deposits	<u>145,398</u>
Total cash and cash equivalents, June 30	<u>\$ 157,542,103</u>

**Noncash transactions:**

Capital contributions by developers	12,467,604
Unrealized loss on investments	(397,397)
Interest accretion on capital appreciation bonds	(1,764,178)

See Notes to Financial Statements



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Albuquerque Bernalillo County Water Utility Authority (Authority) and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. All policy-making for the System resides with the Authority. The Authority and the City entered into a Memorandum of Understanding dated January 21, 2004, as amended April 7, 2004, under which the City continues to operate the System. The memorandum of understanding runs through December 31, 2006. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

The accompanying financial statements present only the financial position of the Authority at June 30, 2005, and the results of its operations for the year ended June 30, 2005. The Authority is a component unit of the City, and these financial statements are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the expense is included (See Notes 2, 6, 8, 9, and 10).

The Authority for financial reporting purposes consists of funds, departments, and programs for which the Authority is financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

1. (a) appointment by the Authority of a majority of voting members of the governing body of an organization, and  
(b) ability of the Authority to impose its will on the daily operations of an organization such as the power to remove appointed members at will; to modify or approve budgets, rates or fees, or to make other substantive decisions; or
2. provision by the organization of specific financial benefits or burdens to the Authority; or
3. fiscal dependency by the organization on the Authority such as from the lack of authority to determine its budget or issue its own bonded debt without Authority approval.

Based on the foregoing criteria, the Authority does not have relationships with other organizations not included herein, of such nature and significance that exclusion would not render the Authority's financial statements incomplete or misleading.

The accounting policies of the Authority as reflected in the accompanying financial statements conform to generally accepted accounting principles for local governmental units. The more significant of these accounting policies are summarized below.

**B. Basis of Presentation**

The Authority accounts for all activities to provide water and sewer services for the residents of the City of Albuquerque and outlying areas. These activities include, but are not limited to, administration, operation, maintenance, financing and related debt service, billing and collection. This proprietary type fund provides services, which are intended to be financed primarily through user charges, or activities where periodic determination of net income is appropriate.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**B. Basis of Presentation, continued**

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues or expenses. These include investment earnings, interest expense, and transactions that result from nonexchange transactions or ancillary activities.

**C. Basis of Accounting**

The Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of when the related cash flow occurs.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Authority applies all applicable Financial Accounting Standards Board pronouncements, which were issued as of November 30, 1989, in accounting and reporting for its operations except for those that conflict with or contradict GASB pronouncements. The Authority does not observe those issued after November 30, 1989.

**D. Estimated Amounts Reported in Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

**E. Cash, Investments, and Accrued Interest**

In accordance with City policies, the Authority participates in the City's cash management program that is administered by the City's Treasury Division. A significant portion of cash and investments held by the City is pooled. The pooled cash investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are stated at fair market value. The balance reported as "Cash, Investments, and Accrued Interest" represents the equity of the Authority in the pooled cash, investments, and accrued interest. The Authority's share of the interest earnings on pooled investments is determined by allocating interest to each of the participating funds of the City and the Authority based on average daily balances.

The investment policy states that the City will not commit any funds invested in the pool to maturities longer than three years from the date of purchase, except investments held to meet legal reserve requirements on bonded indebtedness. The maturity date of these investments will not exceed the final maturity date of the bond issue to which they are pledged. Funds are invested based on a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specific maturities.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**E. Cash, Investments, and Accrued Interest, continued**

The following categories of investments are specifically authorized by the policy:

1. Repurchase Agreements - secured by collateral, which is delivered to a third-party safekeeping institution, with a market value equal to or greater than the value of the agreement.
2. U.S. Treasury Obligations - bills, notes, and bonds.
3. Obligations of Federal Agencies or Instrumentalities - interest bearing or discount form.
4. Municipal Bonds - rated in any of the three highest major rating categories by one or more nationally recognized rating agencies.

The following categories of deposits are specifically authorized by the policy:

1. Checking Accounts - at insured financial institutions.
2. Certificates of Deposit - subject to restrictions set forth in the City's Fiscal Agent Ordinance (City policy requires a minimum of 50% security consisting of insurance and/or collateral).

**F. Statement of Cash Flows**

For the purposes of the statement of cash flows, all pooled cash and investments (including restricted assets) are considered to be cash equivalents, although there are investments with a maturity in excess of three months when purchased, because they have characteristics of demand deposits for each individual fund. Nonpooled investments with original maturities of three months or more are deducted from cash, investments, and accrued interest. Purchases and sales of these investments are reported as cash flows from investing activities.

**G. Capital Assets**

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

Construction costs of water and sewer lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	15 - 50 years
Improvements other than buildings	15 - 33 years
Machinery and equipment	3 - 13 years

Interest expense is capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted. The amount of capitalized interest is determined using the interest cost of the borrowings less any interest earned on investments acquired with the proceeds of the related tax-exempt borrowings from the date of the borrowings until the assets are ready for their intended use.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**H. Deferred Charges**

Purchased water rights are recorded at cost and are being amortized using the straight-line method over one hundred years.

Costs incurred in connection with the issuance of bonds are capitalized and are reported as deferred bond issuance costs. These costs are amortized over the remaining maturity period of the related bond issues under a method that approximates the level interest rate method.

**I. Accrued Vacation and Sick Leave Pay**

The employees of the City and the Authority may accumulate limited amounts of vacation pay that is payable to the employee upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The amount reported in the current liability section is approximately equal to the amount of vacation leave paid in the current fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

The employees of the City and the Authority may accumulate limited amounts of sick leave that is payable to the employee upon termination or retirement. Sick leave costs are recognized when vested or taken, whichever occurs first. The amount reported in the current liability section is the amount recognized for those employees who are currently eligible to retire as of the end of the fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

**J. Deferred Revenue**

The Authority defers revenue on a water rights contract. The revenue is recognized on a straight-line basis through the end of the contract period ending in 2077.

**K. Long-term Obligations**

Long-term obligations used to finance capital acquisitions, payable from the Authority's revenues, are recorded in the Authority's Statement of Net Assets.

**L. Net Assets, Restrictions, and Designations**

The net assets of the Authority are reported in three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments and imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

At June 30, 2005, a portion of the Authority's net assets was restricted for revenue bond retirement and debt service and for acquisition and construction of capital assets.

**M. Unbilled Revenues**

Water and sewer services are billed on a cycle basis; therefore, amounts for service provided but unbilled as of June 30, 2005, have not been included in accounts receivable or revenue. Such unbilled amounts are not material to the financial position and results of operations of the Authority.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 2 CASH AND CASH EQUIVALENTS**

**A. Cash, Investments, Accrued Interest and Cash with Fiscal Agents**

As discussed in Note 1(E), the Authority participates in the City's pooled investment program. The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2005, consist of the following:

	(In thousands of dollars)				
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Unit</u>
Cash, investments, accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	\$ 135,574	\$ 56,548	\$ 4,426	\$ 196,548	\$ 43,452
U.S. Treasury obligations	-	-	-	-	-
Obligations of federal agencies or instrumentalities	223,024	93,023	7,280	323,327	71,481
State of New Mexico investment council	27,578	-	-	27,578	-
State of New Mexico local government investment pool	-	6,732	-	6,732	-
Held in trust by NMFA in State of New Mexico local government investment pool	-	-	-	-	847
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	67	2,648	-	2,715	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	2,494	-	-	2,494	458
Total investments	<u>388,737</u>	<u>158,951</u>	<u>11,706</u>	<u>559,394</u>	<u>116,238</u>
Certificates of deposit	200	-	-	200	-
Bank accounts at book balance	<u>73,552</u>	<u>25,227</u>	<u>1,724</u>	<u>100,503</u>	<u>40,868</u>
Total bank balances	<u>73,752</u>	<u>25,227</u>	<u>1,724</u>	<u>100,703</u>	<u>40,868</u>
Accrued interest receivable	959	378	30	1,367	291
Imprest cash funds	<u>187</u>	<u>14</u>	<u>-</u>	<u>201</u>	<u>-</u>
Total other	<u>1,146</u>	<u>392</u>	<u>30</u>	<u>1,568</u>	<u>291</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 463,635</u>	<u>\$ 184,570</u>	<u>\$ 13,460</u>	<u>\$ 661,665</u>	<u>\$ 157,397</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 294,997	\$ 32,433	\$ 11,801	339,231	\$ 5,061
Cash and investments with fiscal agents	<u>73,264</u>	<u>19,054</u>	<u>-</u>	<u>92,318</u>	<u>37,469</u>
Total current cash, investments and accrued interest	<u>368,261</u>	<u>51,487</u>	<u>11,801</u>	<u>431,549</u>	<u>42,530</u>
Noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	95,374	133,083	1,659	230,116	113,562
Cash and investments with fiscal agents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,305</u>
Total noncurrent cash, investments and accrued interest	<u>95,374</u>	<u>133,083</u>	<u>1,659</u>	<u>230,116</u>	<u>114,867</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 463,635</u>	<u>\$ 184,570</u>	<u>\$ 13,460</u>	<u>\$ 661,665</u>	<u>\$ 157,397</u>



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 2 CASH AND CASH EQUIVALENTS, continued**

**A. Cash, Investments, Accrued Interest and Cash with Fiscal Agents, continued**

The City chose to early implement the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosure – an amendment of GASB Statement No. 3, effective for Financial Statements dated June 30, 2004. The objective of this Statement is to update the custodial credit risk disclosure requirements of Statement 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The Statement changes the content and form of the risk disclosure in the footnotes. The Statement requires disclosure of four types of risk - 1) custodial credit risk for bank deposits and investments 2) credit risk 3) concentration of credit risk and 4) interest rate risk.

- 1A. Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's funds may not be returned to it.

The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2005, none of the City's bank balances of \$150,837,762 was exposed to custodial credit risk.

- 1B. Custodial credit risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City's investment policy requires that all security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment basis. The investment policy further requires that all collateral securities held by a third party custodian, designated by the City Treasurer, shall be held in the City's name and evidenced by a safekeeping receipt or Federal Reserve book-entry reporting.

2. Credit risk. Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the City will not be able to recover the value of its principal.

As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes or insured/collateralized certificates of deposit. The guidelines are reviewed considering the probability of market and default risk in various investments sectors as part of its allocation evaluation.

The City's investment policy describes permitted investments in Section 7 and describes prohibited investments in Section 8. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement 2) certificates of deposit with local banks be fully insured and 3) brokered certificates of deposit be 100% collateralized. Investments in direct obligations of the U.S. Treasury are permitted as are securities of most U.S. Government agencies with the exception of Government National Mortgage Association securities. Other prohibited investments are 1) Collateralized Mortgage Obligations 2) inverse floaters and 3) reverse repurchase agreements.

At June 30, 2005 all of the City's investments in its internal investment pool other than overnight repurchase agreements were invested with U.S. Government agencies whose debt was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The City's non-pooled investments in the State of New Mexico Investment Council Core Bond Fund and the State of New Mexico Local Government Investment Pool were not rated.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE 2 CASH AND CASH EQUIVALENTS, continued**

**A. Cash, Investments, Accrued Interest and Cash with Fiscal Agents, continued**

3. **Concentration of credit risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

The City's investment policy states the City will develop diversification strategies to avoid incurring concentration risk. The following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution or at a single maturity.

All of the City's internal investment pool other than repurchase agreements is in debt securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank. These investments are 53.13%, 32.58% and 14.29% respectively of the non-repurchase agreement portfolio and 33.18%, 20.34% and 8.92% of the total portfolio.

4. **Interest rate risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments.

The City's investment policy limits the City's exposure to interest rate risk by requiring that no less than 80% of the funds invested in the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities of up to five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase.

The weighted average maturity of the investments in the internal investment pool at June 30, 2005 was 227.40 days. The weighted average days to call of the same portfolio was 227.40 days.

**B. Pledged Collateral by Bank**

The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC).

The pledged collateral by bank (in thousands) at June 30, 2005, consists of the following:

	(In thousands of dollars)							
	First State Bank (Water)	First State Bank (Housing)	Bank of America	Wells Fargo Bank	Compass Bank	Bank 1st	Union Bank	NM Bank & Trust
Total amount on deposit	\$ 4,057	\$ 5,673	\$138,578	\$ 2,259	\$ 6	\$ 100	\$ 100	\$ 64
Less FDIC coverage	100	100	100	100	6	100	100	64
Total uninsured public funds	3,957	5,573	138,478	2,159	-	-	-	-
50% collateral requirement	1,979	2,787	69,239	1,079	-	-	-	-
Pledged securities, fair value	4,048	6,475	74,006	1,404	-	-	-	75
Pledged in excess (deficit) of requirement	\$ 2,069	\$ 3,688	\$ 4,767	\$ 325	\$ -	\$ -	\$ -	\$ 75



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 3 ACCOUNTS AND NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Also included are miscellaneous receivables. At June 30, 2005 there was no allowance for uncollectible accounts on miscellaneous receivables.

A dispute exists between New Mexico Utilities and the Authority regarding the rate structure. On September 13, 2004, New Mexico Utilities, Inc. (NMUI) filed a Complaint for Declaratory Judgment, with the Second Judicial District Court naming the Albuquerque Bernalillo County Water Utility Authority as defendant. The complaint asks the Court to declare that the 1973 Agreement between the City of Albuquerque and NMUI provides a "most favored nation" status and the right to have its sewage effluent disposed at the minimum sewer rate of large volume institutional users and that the rate currently imposes only the wholesale rate commodity charge with the institutional fixed monthly charge to large volume users. The complaint also requests court costs. The Authority's answer to the complaint was filed on October 15, 2004 along with a counterclaim. The counterclaim lists 6 counts: 1) Declaratory Judgment; 2) Estoppel; 3) Impracticability of Performance; 4) Unjust Enrichment; 5) Anti-Donation Clause; and 6) Breach of Contract. The Authority expects this issue to be resolved by 2007. As a result, the amount owed by New Mexico Utilities at June 30, 2005, \$950,080, is considered noncurrent.

Notes receivable are for utility expansion charges. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest.

Amounts due on grants from Federal or State agencies are reported in the restricted assets section of the Statement of Net Assets.

**NOTE 4 CAPITAL ASSETS**

Capital asset activity of the Authority for the year ended June 30, 2005, was as follows:

	Balance July 1	Increases	Decreases	Balance June 30
<b>Assets not being depreciated:</b>				
Land	\$ 22,956,274	\$ 189,910	\$ -	\$ 23,146,184
Construction work in progress	<u>74,202,089</u>	<u>77,468,342</u>	<u>63,671,973</u>	<u>87,998,458</u>
Total assets, not being depreciated	<u>97,158,363</u>	<u>77,658,252</u>	<u>63,671,973</u>	<u>111,144,642</u>
<b>Assets being depreciated:</b>				
Buildings	2,257,926	-	-	2,257,926
Improvements other than buildings	1,299,685,692	104,504,584	-	1,404,190,276
Equipment	<u>40,064,995</u>	<u>12,249,843</u>	<u>13,010,580</u>	<u>39,304,258</u>
Total assets, being depreciated	<u>1,342,008,613</u>	<u>116,754,427</u>	<u>13,010,580</u>	<u>1,445,752,460</u>
<b>Less accumulated depreciation:</b>				
Buildings	1,411,794	45,159	-	1,456,953
Improvements other than buildings	677,549,512	43,167,061	-	720,716,573
Equipment	<u>26,931,921</u>	<u>3,197,238</u>	<u>12,634,900</u>	<u>17,494,259</u>
Total accumulated depreciation	<u>705,893,227</u>	<u>46,409,458</u>	<u>12,634,900</u>	<u>739,667,785</u>
Capital assets being depreciated, net	<u>636,115,386</u>	<u>70,344,969</u>	<u>375,680</u>	<u>706,084,675</u>
Total capital assets, net	<u>\$ 733,273,749</u>	<u>\$ 148,003,221</u>	<u>\$ 64,047,653</u>	<u>\$ 817,229,317</u>



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 4 CAPITAL ASSETS, continued**

Changes to capital assets of the Authority for the fiscal year ended June 30, 2005, include the following amounts of capitalized interest:

	<u>Total Interest</u>	<u>Interest Related to Tax-Exempt Borrowing</u>	<u>Net</u>
Interest expense	\$ 13,982,296	\$ 5,576,725	\$ 8,405,571
Interest income	3,256,392	<u>1,707,450</u>	1,548,942
Capitalized interest		<u><u>\$ 3,869,275</u></u>	

**NOTE 5 LONG-TERM OBLIGATIONS**

**A. Revenue Bonds, Notes Payable and Loan Agreements**

The change in the long-term obligations of the Authority for the year ended June 30, 2005, are as follows:

	<u>Outstanding</u>				
	<u>June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>	<u>Payable in one year</u>
Revenue Bonds	\$ 218,440,000	\$ -	\$ 32,695,000	\$ 185,745,000	\$ 33,050,000
Notes Payables	26,029,055	128,042,878	6,143,608	147,928,325	5,438,784
Water rights contract	19,989,505	-	792,354	19,197,151	816,489
Accrued vacation and sick leave pay	2,244,998	2,020,377	1,798,331	2,467,044	1,886,889
Less deferred amounts:					
Unamortized bond discounts	(5,841,162)	-	(1,764,179)	(4,076,983)	-
Unamortized bond premiums	2,868,799	-	759,661	2,109,138	-
Bond refunding costs	<u>(2,279,068)</u>	<u>-</u>	<u>(696,232)</u>	<u>(1,582,836)</u>	<u>-</u>
	261,452,127	130,063,255	39,728,543	351,786,839	41,192,162
Current portion of long-term obligations	<u>(35,662,428)</u>	<u>-</u>	<u>5,529,734</u>	<u>(41,192,162)</u>	<u>-</u>
Total	<u><u>\$ 225,789,699</u></u>	<u><u>\$ 130,063,255</u></u>	<u><u>\$ 45,258,277</u></u>	<u><u>\$ 310,594,677</u></u>	<u><u>\$ 41,192,162</u></u>

Authority Revenue Bonds are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system. In ordinances pursuant to the issuance of these bonds, the Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding system obligations. The Authority met those requirements at the end of the fiscal year.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 5 LONG-TERM OBLIGATIONS, continued**

**A. Revenue Bonds, Notes Payable and Loan Agreements, continued**

Authority Revenue Bonds outstanding at June 30, 2005, are as follows:

<u>Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
June 1, 1990 A	\$ 29,955,000	6.00/7.20%	July 1, 2008	100% beginning July 1, 2000
January 1, 1994 A	9,540,000	2.75/5.50%	July 1, 2005	Not callable
August 1, 1995	14,100,000	3.625/6.00%	July 1, 2007	Not callable
June 15, 1997	25,940,000	4.75%	July 1, 2009	100% beginning July 1, 2006
January 1, 1999A	67,420,000	3.80/5.25%	July 1, 2011	Not callable
May 1, 2000A	9,090,000	5.00%	July 1, 2006	Not callable
December 1, 2001	<u>29,700,000</u>	3.00/4.50%	July 1, 2013	100% beginning July 1, 2010
Total outstanding	185,745,000			
Unamortized:				
Premiums	2,109,138			
Discounts	(4,076,983)			
Deferred refunding costs	<u>(1,582,836)</u>			
Net outstanding	<u>\$ 182,194,318</u>			

Included in the outstanding Authority Water and Sewer Revenue Bonds are the June 1, 1990A issue, capital appreciation bonds with a par amount of \$32,580,000, net of original issue discount of \$22,588,290. In accordance with the bond agreement, the payment for these bonds is not provided for in the current revenue rate structure; however, interest in the amount of \$18,511,306 has accreted as of June 30, 2005, and; accordingly, the interest expense and related liability are included in the financial statements of the Authority. The accreted interest is included as a reduction of the unrestricted net assets.

A Water Rights Contract with the United States Government was entered into by the Authority during the fiscal year ended June 30, 1963, to pay a portion of the construction, operation, and maintenance costs of the San Juan Chama diversion project in return for a portion of the water rights resulting from the project. The contract provides for payment in fifty annual installments with final maturity in 2022, and has an interest rate of 3.046%. The amount of the contract outstanding at June 30, 2005, was \$19,197,151.

On October 1, 1994, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$7,907,582 to a long-term notes payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Annual payments are \$567,926, with a final payment due on July 1, 2013. The balance due at June 30, 2005, was \$3,986,666.

On October 5, 1995, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$4,000,000 line of credit agreement. The note payable of \$2,521,846 (total draws on the line of credit at the time of project completion) had an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Final payment is due on July 1, 2008. The balance due at June 30, 2005, was \$774,841.

On July 1, 1997, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$9,000,000 to a long-term note payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Final payment is due on July 1, 2008. The balance due at June 30, 2005, was \$2,765,264.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 5 LONG-TERM OBLIGATIONS, continued**

**A. Revenue Bonds, Notes Payable and Loan Agreements, continued**

On June 14, 2000, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$15,000,000 to a long-term note payable with an interest rate of 4% with annual payments of \$1,587,627. Final payment is due on July 1, 2012. The balance due at June 30, 2005, was \$9,529,026.

On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$12,000,000 line of credit agreement. The note payable of \$9,627,877 (total draws on the line of credit plus accrued interest of \$242,655) has an interest rate of 3%. The note requires annual payments of \$647,145, due on May 20<sup>th</sup>. Final payment is due May 20, 2025. The balance due at June 30, 2005, is \$9,627,877.

On April 12, 2002, the Authority executed a loan agreement with the New Mexico Finance Authority for \$450,000 with an average interest rate of 3.6%. The proceeds from the loan will be used to construct chemical storage facilities used as part of the Authority's drinking water disinfection system. Final payment is due on July 1, 2014. The balance due at June 30, 2005 was \$389,384.

On May 10, 2002, the Authority executed a loan agreement with the New Mexico Finance Authority for \$2,450,000 with an average interest rate of 2.8%. The proceeds from the loan will be used for the construction of a drinking water disinfection system in the Authority's water and wastewater utility system. Final payment is due on July 1, 2014. The balance due at June 30, 2005 was \$2,108,605.

On April 11, 2003, the Authority executed a loan agreement with the New Mexico Finance Authority for \$3,600,000 with an interest rate of 2.0%. The proceeds from the loan will be used for the construction of a pump station in the Authority's water and wastewater utility system. Final payment is due on January 1, 2016. The balance due at June 30, 2005 was \$3,331,661.

On October 13, 2004, the Authority executed a loan agreement with the New Mexico Finance Authority for \$118,415,000 with an average interest rate of 3.3%. The proceeds of the loan will be used to fund the San Juan Chama surface water diversion project and various capital improvements to the water and wastewater system. Final payment is due May 1, 2024. The balance due at June 30, 2005 was \$115,415,000.

**B. Summary of Annual Debt Service Requirements**

The annual debt service requirements on the revenue bonds, notes payable, loan agreements and the water rights contract payable outstanding at June 30, 2005, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 39,305,273	\$ 19,064,959	\$ 58,370,232
2007	38,655,685	11,279,003	49,934,688
2008	40,932,686	9,887,417	50,820,103
2009	39,101,345	8,641,236	47,742,581
2010	30,481,981	7,414,543	37,896,524
2011-2015	96,292,236	22,100,325	118,392,561
2016-2020	41,987,495	9,922,311	51,909,806
2021-2025	26,113,775	2,368,367	28,482,142
	<u>\$ 352,870,476</u>	<u>\$ 90,678,161</u>	<u>\$ 443,548,637</u>



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 6 DEFINED BENEFIT PENSION PLAN**

Substantially all of the City of Albuquerque full-time employees participate in a defined benefit contributory retirement plan through the Public Employees' Retirement Association (PERA) of the State of New Mexico, a cost-sharing, multiple-employer public employee retirement plan. PERA provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. A publicly available financial report that includes financial statements and required supplementary financial information for PERA can be obtained by correspondence to Comptroller, Public Employees Retirement Association, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123.

**RETIREMENT ELIGIBILITY** - An employee may retire when 25 or more years of service are attained at any age (20 years for Police and Fire) or under the following age options: age 60 with 20 or more years of service, age 61 with 17 or more years of service, age 62 with 14 or more years of service, age 63 with 11 or more years of service, age 64 with 8 or more years of service, or age 65 with 5 or more years of service.

**RETIREMENT BENEFITS** - An employee's retirement benefit is based on a formula which considers credit for years of service multiplied by a percentage factor and is then applied against the employee's average highest three-year salary. Retirement benefits are vested upon reaching five years of service. The plan also provides death and disability benefits. Benefits are established by State statute.

**FUNDING POLICY** - Covered employees are required by State statute to contribute a percentage of their gross salary; the City of Albuquerque is also required by State statute to contribute a certain percent depending on the type of plan. The following are the plans covered by the City, contribution requirements, and contributions actually made (in thousands of dollars) for the year ended June 30, 2005.

<u>Group Covered</u>	<u>Employee</u>		<u>Employer</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
General - Management, Blue Collar and White Collar	3.29%	\$ 6,333	19.01%	\$ 28,974
General - Bus Drivers	13.15%	848	9.15%	590
General - Other	7.00%	167	7.00%	195
Police	16.30%	7,279	18.50%	8,543
Fire	16.20%	4,578	21.25%	6,006
		<u>\$ 19,205</u>		<u>\$ 44,308</u>

The total required contributions and amounts actually paid (in thousands of dollars) in prior years is as follows:

<u>Fiscal year ended June 30</u>	<u>Employee</u>	<u>Employer</u>
2004	\$16,933	\$42,065
2003	17,032	42,347

If a member's employment is terminated before the member is eligible for any other benefits under PERA, the member may receive a refund of the member's contribution and interest accrued based on rates established biannually by the retirement board.

The payroll for employees covered by PERA for the year ended June 30, 2005, was \$240,089,175; the total payroll for all employees of the City of Albuquerque was \$268,763,204.

The Authority paid \$3,415,514 in contributions to PERA for the year.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 7 DEFINED CONTRIBUTION RETIREMENT PLAN**

On March 31, 2004, the Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for full time employees and 7% for part time employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute one of 3.29%, 5%, 7%, 10% for full time employees and 7% for part time employees.

**NOTE 8 POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits described in Note 6, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the City.

**LIFE INSURANCE BENEFITS:** Life insurance benefits authorized by the City's Merit System Ordinance and Personnel Rules and Regulations for eligible employees are reduced by 50%, not to exceed \$25,000, upon retirement. Life insurance benefits are paid through premiums to an insurance company under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The City recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenditures. The life insurance costs for the fiscal year ended June 30, 2005, were approximately \$188,184. The number of retired employees covered under the life insurance benefit was 3,327 at June 30, 2005, and the amount of life insurance coverage for these retired employees was \$63,750,400.

**RETIREE HEALTH CARE ACT CONTRIBUTIONS:** The Retiree Health Care Act (Sec 10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments by eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, the Magistrate Retirement Act, or the Public Employees Retirement Act.

Eligible retirees are those who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution in an amount equal to 0.65 percent of the employee's annual salary. Each participating retiree pays a monthly premium.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The Retiree Health Care Authority requires that the employer, employee, and retiree contributions be remitted on a monthly basis.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 8 POST-EMPLOYMENT BENEFITS, continued**

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report may be obtained by writing to the Retiree Health Care Authority, 810 W. San Mateo, Santa Fe, New Mexico 87501.

The City of Albuquerque remitted \$3,127,138 in employer contributions and \$1,563,569 in employee contributions in the fiscal year ended June 30, 2005.

The Authority paid \$231,308 in contributions to the plan for the year.

**NOTE 9 DEFERRED COMPENSATION**

The City of Albuquerque offers its employees three deferred compensation plans created in accordance with the Internal Revenue Code Section 457. The plans, available to all City employees, permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City does not make matching contributions to these plans. All plans comply with the provisions of the Internal Revenue Code, which provides that all assets and income of the plan shall be held in trust for the exclusive benefit of the participants and their beneficiaries.

**NOTE 10 RISK MANAGEMENT**

The City is exposed to various risks of loss related to: torts and civil rights claims (including law enforcement and employment related exposures); theft, damage and destruction of its real and personal assets; workers compensation losses; errors and omissions of City officers and officials; and natural disasters. The City uses the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$600,000 for each workers' compensation incident, \$1,050,000 for each tort liability claim, and \$50,000 for each City real and contents damage claim. At various periods in past years, certain risk exposures were insured and the City continues to benefit from case coverage on claims that were incurred during those claim years.

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was \$1,000,000 at June 30, 2005, and is included in the unrestricted net assets (deficit) of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

During fiscal years 2004 and 2005, the City had actuarial reviews of the adequacy of the reserves for both the Workers Compensation and Tort Liability programs. The actuarial reviews recommended that the City increase the amounts reserved in anticipation of severe adverse developments in reported cases and for claims that may have occurred but have not yet been reported, and this recommendation was taken. Historical data contributes to the confidence that the Risk Management Fund is adequate for unanticipated developments. The cash balance grew by \$6,930,550 during this fiscal year and the City has a funding plan in place to address the remaining deficit in the Risk Management Fund. Further, if necessary, the City Council can add catastrophic losses directly to the tax rolls. In addition, the City has other cash resources in excess of the balance not addressed.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 10 RISK MANAGEMENT, continued**

The amounts and changes in the Fund's claims liability in fiscal year 2005 and 2004 were:

	<u>2005</u>	<u>2004</u>
Claims liability at July 1	\$ 47,578,248	\$ 40,601,564
Current year claims and change in estimates	23,682,795	23,545,885
Claims liquidated	<u>(20,882,279)</u>	<u>(16,569,201)</u>
Claims liability at June 30	<u>\$ 50,378,764</u>	<u>\$ 47,578,248</u>
The components of the claims liability at June 30 are:		
Current portion	\$ 17,503,500	\$ 17,989,500
Noncurrent portion	<u>32,875,264</u>	<u>29,588,748</u>
Total claims liability	<u>\$ 50,378,764</u>	<u>\$ 47,578,248</u>

The Authority paid \$4,493,338 for its share of the risk management charges for the year. The Risk Management Fund has a deficit fund net assets of \$8,689,788 as of June 30, 2005. The Authority could be assessed additional charges in the future to recover this deficit.

**NOTE 11 RESTATEMENT OF PRIOR PERIOD NET ASSETS**

The Authority replaced its 25 year old billing system with a new state of the art system. In the migration from the old system to the new it was determined that the old system was calculating the entire interest for Utility Expansion Charge (UEC) loans on a 10 year 7% note and booking this as part of the UEC accounts receivable. The new system calculates interest when earned and then books the interest accordingly to the general ledger. In transferring the data from the old billing system to the new the Authority determined that UEC accounts receivable should be reduced by \$1,641,019. Because of this, beginning net assets on July 1, have been reduced by \$1,641,019.

**NOTE 12 TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES**

As discussed in Note 1, the Authority has entered into a Joint Powers Agreement as well as a memorandum of understanding with the City and Bernalillo County for operations of the utility. In addition to the risk management charges reported in Note 10, the Authority engaged in the following transactions with the City.

The Authority paid the City for the following services:

Payments in lieu of taxes	\$ 4,769,764
Administrative indirect overhead, including accounting and other central services	2,574,956
Supplies	1,761,963
Fleet management services	1,574,311
Telephone	220,052
Office services and parking	<u>77,766</u>
Total	<u>\$ 10,978,812</u>

The City paid the Authority for the following services:

Water and sewer services	<u>\$ 5,339,333</u>
--------------------------	---------------------

There were no significant transactions with Bernalillo County for the fiscal year ending 2005.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

**A. Construction Commitments**

At June 30, 2005, the uncompleted construction and other commitments in the Authority was \$30,954,544. This amount will be paid from assets restricted for construction, improvements and replacements, or from operating revenues.

**B. Federal and State Grant Commitments**

The Authority has received a number of Federal and State grants for specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, Authority management believes that such disallowances, if any, will not be material. Single audit information for the water utility is included in the Comprehensive Annual Financial Report for the City of Albuquerque.

**C. Contingencies**

In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued. It is the opinion of Authority management that the ultimate resolution of other litigation will not have a material effect on the financial position of the Authority.

On June 23, 2004, the Albuquerque Bernalillo County Water Utility Authority Board approved a resolution authorizing the executive director to execute an agreement with the U.S. Federal Emergency Management Agency and the State of New Mexico Emergency Management Bureau and provided an appropriation to the water utility. The Governor of New Mexico requested disaster assistance on April 3, 2004 and the President approved Federal assistance on April 29, 2004 for emergency assistance for damages sustained for the severe storms and flooding on April 2, 2004. A cost estimate was prepared by FEMA, which is the basis for the appropriations contained in the resolution. FEMA will provide assistance at 75% or \$4,362,511 of the total eligible costs with the State contributing 18.35% or \$1,076,086, thus providing 93.5% assistance toward an anticipated \$5,816,681 in repairs to sanitary sewer pipes and repairs at the Wastewater Treatment Plant, due to the sand and gravel that was washed down the interceptors. The agreement was executed between FEMA, the State of New Mexico and ABCWUA on July 9, 2004.

The City of Albuquerque's Special Assessment debt and notes payable with governmental commitment is secured by pledges of revenues from special assessments levied. The outstanding bonds and notes of certain water and sewer improvement districts are also secured by surplus revenues of the Albuquerque Bernalillo County Water Utility Authority (a component unit of the City of Albuquerque), subordinate to bonds and obligations payable solely or primarily from such revenues. All Special Assessment debt is callable at 100% on any semi-annual interest payment date. Special Assessment debt and notes of which the Authority's revenues are pledged amount to \$886,469 outstanding at June 30, 2005. Interest rates range from 5.10% to 6.65%, and maturities extend through January 1, 2015.

The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. An appeal of the surface diversion permit was filed in State District Court by a group of environmental and farmer interests. A preliminary hearing was held in December 2004 and again in April 2005 and the Authority anticipates that the actual trial de novo will commence sometime in early 2006.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 14 SUBSEQUENT EVENTS**

On October 26, 2005, the Authority closed on a Series 2005 Bond issuance for a total of \$132,985,000. The proceeds will be used for the second phase of the San Juan Chama Surface Water Treatment project (\$116.7 million) and for basic system capital projects (16.3 million). Interest rates on the twenty year San Juan Chama Surface Water Treatment project average 4.27% and for the 12 year basic system capital projects interest rates average 3.79%.

On October 28, 2005, the Authority negotiated a loan agreement with the New Mexico Finance Authority for a total of \$20,000,000. The proceeds will be used for the second phase of the San Juan Chama Surface Water Treatment project. Interest rates on the twenty-year loan average 3.79%.

On January 1, 2006, the Authority will implement a new water rate structure based on the cost of service model. The new water rate structure is part of an overall rate study begun in fiscal year 2004. The wastewater rate portion of the rate study was implemented in July 2004.



## **STATISTICAL SECTION - UNAUDITED**



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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL**  
**Year ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>				
Charges for services	\$ 111,864,000	\$ 111,864,000	\$ 102,458,564	\$ (9,405,436)
City water service expansion charges	13,000,000	13,000,000	12,404,189	(595,811)
Sustainable water supply	28,369,000	28,369,000	23,676,369	(4,692,631)
Interest on investments	1,050,000	1,050,000	1,009,302	(40,698)
Valley system connection charges	75,000	75,000	107,174	32,174
City system connection charges	500,000	500,000	1,242,802	742,802
Other miscellaneous	971,000	971,000	967,867	(3,133)
Transfer from other government entity	-	927,922	927,922	-
Transfer from non-restricted cash to cash restricted for debt service	49,565,000	49,565,000	49,565,000	-
<b>Total revenues</b>	<u>205,394,000</u>	<u>206,321,922</u>	<u>192,359,189</u>	<u>(13,962,733)</u>
<b>Expenses:</b>				
Water plant facility R&M	10,513,000	10,514,406	9,236,431	1,277,975
Water plant facility operations	9,547,000	9,547,000	8,304,914	1,242,086
Water distribution facility maintenance	3,841,000	3,841,000	3,656,287	184,713
Wastewater treatment	10,751,000	10,756,719	10,016,599	740,120
Wastewater pretreatment	3,270,000	3,364,271	3,106,844	257,427
Wastewater collection	4,525,000	4,526,480	5,251,976	(725,496)
Sustainable water supply	11,585,000	11,585,000	7,548,977	4,036,023
North I-25 reuse	369,000	369,000	211,557	157,443
Customer services	3,608,000	3,608,000	3,411,545	196,455
Finance	5,609,000	5,618,000	5,300,279	317,721
San Juan-Chama	2,237,000	2,237,000	1,947,861	289,139
Strategic support	1,337,000	1,337,000	1,061,088	275,912
Utility development	878,000	878,000	894,115	(16,115)
Water resources	3,123,000	3,123,000	3,300,621	(177,621)
Information systems	1,590,000	1,590,000	1,662,897	(72,897)
Low income utility credit	250,000	250,000	266,723	(16,723)
Water Authority	673,000	673,000	580,124	92,876
Debt service	56,122,000	56,122,000	50,897,538	5,224,462
Transfer to cash restricted for debt service	40,954,000	40,954,000	40,954,000	-
Transfer from cash restricted for debt service to cash restricted for capital acquisition	12,000,000	12,000,000	12,000,000	-
Sustainable water supply - transfer to cash restricted for debt service	8,611,000	8,611,000	8,611,000	-
Transfer to cash restricted for capital acquisition	6,000,000	6,000,000	6,000,000	-
Sustainable water supply - transfer to cash restricted for capital acquisition	12,000,000	12,000,000	12,000,000	-
Administrative services	7,689,000	7,689,000	7,344,720	344,280
<b>Total expenses</b>	<u>217,082,000</u>	<u>217,193,876</u>	<u>203,566,096</u>	<u>13,627,780</u>
<b>Excess of revenues over (under) expenses</b>	<u>\$ (11,688,000)</u>	<u>\$ (10,871,954)</u>	<u>(11,206,907)</u>	<u>\$ (334,953)</u>



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET TO ACTUAL, continued**  
**Year ended June 30, 2005**

	<u>Actual</u>
Revenues (expenses) not budgeted:	
Interest on investments of restricted assets	2,644,487
Gain (loss) on disposition of property and equipment	(356,714)
Depreciation	(46,409,458)
Amortization of deferred bond costs	(142,523)
Amortization on water rights contract	(374,323)
Amortization on premium and discounts	759,661
Amortization of deferred amounts on refundings	(696,757)
Assets transferred to another agency	(160,824)
Accreted interest on capital appreciation bonds	(1,764,178)
Unrealized loss on investments	(397,397)
Miscellaneous expenses	(43,269)
Lease of water rights	251,175
Net expenses over revenues not budgeted	<u>(46,690,120)</u>
Changes to conform to generally accepted accounting principles:	
Principal payments on bonds and loan agreements	39,997,639
Transfer to cash restricted for capital acquisition	30,487,243
Capital contributions	20,848,605
Capital outlay	7,591,915
Capitalized interest on long-term debt	3,869,275
Capital contributions budgeted as revenues	<u>(1,349,976)</u>
Net changes to conform to generally accepted accounting principles	<u>101,444,701</u>
Change in net assets	<u>\$ 43,547,674</u>



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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**LAST TEN FISCAL YEARS <sup>(1)</sup>**  
**(In thousands of dollars)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>
<b>Operating revenues:</b>			
Charges for services	\$ <u>90,556</u>	\$ <u>85,384</u>	\$ <u>88,999</u>
<b>Operating expenses:</b>			
Salaries and fringe benefits	22,029	23,438	23,543
Professional services	909	1,485	1,636
Utilities	8,282	7,387	7,486
Supplies	1,362	1,559	1,305
Travel	21	39	10
Fuels, repairs, and maintenance	6,859	7,714	7,271
Contractual services	3,365	2,934	3,140
Other operating expenses	8,797	8,201	8,735
Depreciation	35,409	37,722	40,411
Amortization - water rights	<u>303</u>	<u>303</u>	<u>303</u>
<b>Total operating expenses</b>	<u>87,336</u>	<u>90,782</u>	<u>93,840</u>
<b>Operating income (loss)</b>	<u>3,220</u>	<u>(5,398)</u>	<u>(4,841)</u>
<b>Nonoperating revenues (expenses):</b>			
Interest on investments	3,285	2,944	2,573
Gain (loss) on disposition of capital assets	14	(41)	151
Interest expense	(14,557)	(14,771)	(16,369)
City water service expansion charges	10,382	8,830	9,363
Bond issue costs incurred <sup>(2)</sup>	(498)	(59)	(361)
Bond issue amortization <sup>(2)</sup>	-	-	-
Equipment purchased for outside agency or fund	-	-	-
Expenses incurred for outside agency or fund	-	-	-
Other	<u>809</u>	<u>336</u>	<u>320</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(565)</u>	<u>(2,761)</u>	<u>(4,323)</u>
<b>Income (loss) before capital contributions and transfers</b>	2,655	(8,159)	(9,164)
<b>Capital contributions</b>	<u>16,316</u>	<u>17,059</u>	<u>18,133</u>
<b>Change in net assets</b>	18,971	8,900	8,969
<b>Net assets, July 1, as restated</b>	<u>347,810</u>	<u>366,781</u>	<u>375,681</u>
<b>Net assets, June 30</b>	<u>\$ <u>366,781</u></u>	<u>\$ <u>375,681</u></u>	<u>\$ <u>384,650</u></u>

(1) 1995 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund. Some reclassification of prior year numbers have been made to conform to the Authority's presentation beginning with FY 2004.

(2) In 2000, the City adopted the policy of capitalizing bond issue costs and amortizing the costs over the life of the bond issue.



TABLE I  
Page 1 of 1

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>\$ 99,031</u>	<u>\$ 103,606</u>	<u>\$ 107,771</u>	<u>\$ 113,781</u>	<u>\$ 117,681</u>	<u>\$ 130,420</u>	<u>\$ 126,622</u>
23,227	23,946	25,062	25,433	24,760	25,479	26,796
1,389	987	1,065	754	236	388	1,139
7,973	7,419	8,244	7,581	7,924	8,306	7,935
1,056	1,541	1,957	1,307	1,529	2,425	2,939
21	35	25	13	5	26	24
6,949	7,287	7,875	7,169	7,524	7,387	7,252
2,963	2,866	3,313	3,145	2,637	3,886	4,422
9,060	9,327	10,152	10,743	10,786	12,498	12,909
42,205	41,670	37,070	39,355	40,843	42,877	46,410
303	303	332	348	359	370	374
<u>95,146</u>	<u>95,381</u>	<u>95,095</u>	<u>95,848</u>	<u>96,603</u>	<u>103,642</u>	<u>110,200</u>
<u>3,885</u>	<u>8,225</u>	<u>12,676</u>	<u>17,933</u>	<u>21,078</u>	<u>26,778</u>	<u>16,422</u>
1,447	3,863	2,502	2,032	1,073	419	1,549
3	(194)	102	66	19	10	(356)
(16,834)	(13,026)	(14,046)	(12,206)	(12,278)	(10,428)	(8,406)
11,968	10,780	10,909	11,909	14,433	15,112	12,404
(1,177)	-	-	-	-	-	-
-	(13)	(93)	(35)	(97)	(130)	(143)
-	-	-	-	(332)	(242)	-
-	-	-	-	-	(296)	(161)
321	457	3,649	544	4,938	203	1,390
<u>(4,272)</u>	<u>1,867</u>	<u>3,023</u>	<u>2,310</u>	<u>7,756</u>	<u>4,648</u>	<u>6,277</u>
(387)	10,092	15,699	20,243	28,834	31,426	22,699
<u>15,197</u>	<u>15,062</u>	<u>12,182</u>	<u>14,995</u>	<u>22,178</u>	<u>28,288</u>	<u>20,849</u>
14,810	25,154	27,881	35,238	51,012	59,714	43,548
<u>384,650</u>	<u>399,460</u>	<u>424,614</u>	<u>452,495</u>	<u>487,733</u>	<u>538,745</u>	<u>598,459</u>
<u>\$ 399,460</u>	<u>\$ 424,614</u>	<u>\$ 452,495</u>	<u>\$ 487,733</u>	<u>\$ 538,745</u>	<u>\$ 598,459</u>	<u>\$ 642,007</u>



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SELECTED WATER/SEWER SYSTEM STATISTICS**  
**LAST TEN CALENDAR YEARS**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Estimated Population (Service Area)	467,342	473,379	479,454	485,569
Number of Meters Billed	137,119	139,486	141,775	144,502
Estimated Persons Per Meter	3.41	3.39	3.38	3.36
Annual Pumpage (1,000 Gallons)	40,365,000	38,917,000	35,810,000	36,841,000
Annual Water Billed (1,000 Gallons)	34,928,245	34,162,408	31,494,743	32,288,181
Average Daily Pumpage (Gallons)	110,589,041	106,621,918	98,109,589	100,934,247
Peak Day Pumpage (Gallons)	188,800,000	177,620,000	174,500,000	181,560,000
Average Daily Production Per Meter (Gallons)	807	764	692	698
Well Pumping Capacity (Per 24 Hour Period)	290,600,000	293,000,000	293,000,000	293,000,000
Storage Capacity (Gallons)	206,600,000	206,600,000	206,600,000	206,600,000
Number of Miles of Lines				
- Water	2,520	2,520	2,520	2,520
- Sewer	1,550	1,560	1,600	1,650

Source: Albuquerque Bernalillo County Water Utility Authority



**TABLE II**  
**Page 1 of 1**

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
491,723	497,916	503,371	508,855	513,488	518,623
147,605	149,883	153,245	156,502	160,135	162,536
3.33	3.32	3.28	3.25	3.21	3.19
35,627,000	37,101,000	35,750,000	34,760,000	34,734,000	32,600,000
31,384,676	33,074,427	31,670,527	30,836,908	30,886,343	29,235,684
97,608,219	101,646,575	97,945,205	95,232,877	95,161,644	89,315,068
174,430,000	169,500,000	163,600,000	160,140,000	163,500,000	151,000,000
661	678	639	609	594	549
293,000,000	294,000,000	294,000,000	294,000,000	294,000,000	294,000,000
211,000,000	211,000,000	211,000,000	211,000,000	211,000,000	211,000,000
2,520	2,520	2,520	2,520	2,520	2,520
1,690	1,730	1,780	1,820	1,820	1,820



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
DEMOGRAPHIC STATISTICS

**Population**

<u>US</u> <u>Census</u>		<u>Bernalillo</u> <u>County</u>	<u>% Inc/Dec</u> <u>from Prev. Yr.</u>	<u>City of</u> <u>Albuquerque</u>	<u>% Inc/Dec</u> <u>from Prev. Yr.</u>	<u>State of</u> <u>New Mexico</u>	<u>% Inc/Dec</u> <u>from Prev. Yr.</u>
2004	**	593,765	2.12%	484,246	2.63%	1,903,289	1.53%
2003	**	581,442	1.35%	471,856	1.72%	1,874,614	1.05%
2002	**	573,675	1.94%	463,876	2.15%	1,855,059	1.32%
2001	**	562,760	0.92%	454,109	1.03%	1,830,935	0.50%
2000	*	557,621	0.84%	449,480	6.87%	1,821,767	0.76%
1999	**	553,002	0.31%	420,578	-0.19%	1,808,082	0.81%
1998	**	551,298	0.60%	421,384	0.11%	1,793,484	1.05%
1997	**	547,997	0.70%	420,907	0.09%	1,774,839	1.28%
1990	*	100,244	-76.15%	386,988	16.24%	1,515,069	16.26%
1980	*	420,262	33.09%	332,920	36.16%	1,303,143	28.13%
1970	*	315,774	20.43%	244,501	21.53%	1,017,055	6.94%
1960	*	262,199	NA	201,189	NA	951,023	NA

\* Source: Bureau of the Census

\*\* Source: Bureau of Business and Economic Research-estimates

**Unemployment**

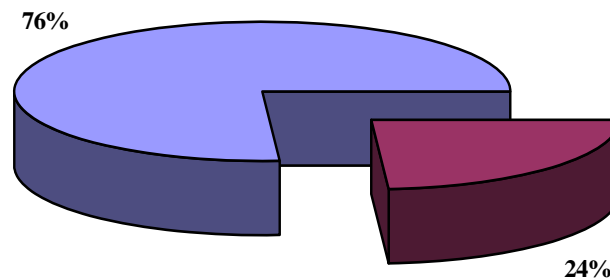
<u>Calendar</u> <u>Year</u>	<u>Bernalillo County</u>			<u>Unemployment Rates</u>		
	<u>Civilian</u> <u>Labor Force</u>	<u>Number</u> <u>Employed</u>	<u>Number</u> <u>Unemployed</u>	<u>Bernalillo</u> <u>County</u>	<u>New</u> <u>Mexico</u>	<u>United</u> <u>States</u>
2004	312,140	279,810	14,330	4.60%	5.60%	5.40%
2003	315,152	299,843	15,309	4.90%	5.70%	6.10%
2002	308,907	294,946	13,961	4.52%	5.40%	5.80%
2001	305,169	293,339	10,947	3.59%	4.80%	4.80%
2000	303,158	275,575	9,819	3.24%	5.00%	4.00%
1999	286,588	280,785	11,013	3.84%	5.60%	4.20%
1998	293,804	277,035	13,019	4.43%	6.20%	4.50%
1997	289,403	267,621	12,368	4.27%	6.20%	4.90%
1996	282,792	270,435	15,171	5.36%	8.10%	5.40%
1995	281,743	264,080	11,308	4.01%	6.30%	5.60%

Source: New Mexico Labor Market Report



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
TOP TEN MAJOR EMPLOYERS

2005			
<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>	<u>% of County Employment</u>
1. Kirtland AFB (Civilian)	Defense	17,892	4.82%
2. University of New Mexico	Education	15,835	4.26%
3. Albuquerque Public School	Education	11,700	3.15%
4. Sandia National Laboratories	Research and Development	7,700	2.07%
5. City of Albuquerque	Government	6,940	1.87%
6. Kirtland AFB (Military)	Government	6,834	1.84%
7. Presbyterian	Hospital	5,800	1.56%
8. State of New Mexico	Government	5,660	1.52%
9. Lovelace Sandia Health Systems	Hospital	5,400	1.45%
10. Intel Corporation	Semiconductor Manufacturer	5,200	1.40%
Total		<u>88,961</u>	<u>23.94%</u>
Total Non-Ag Civil and Military Employees		<u>371,284</u>	<u>100.00%</u>



Source: Albuquerque Economic Development Inc.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
WATER AND WASTEWATER USERS BY CLASS AND METER SIZE  
LAST TEN FISCAL YEARS

**BY CLASS**

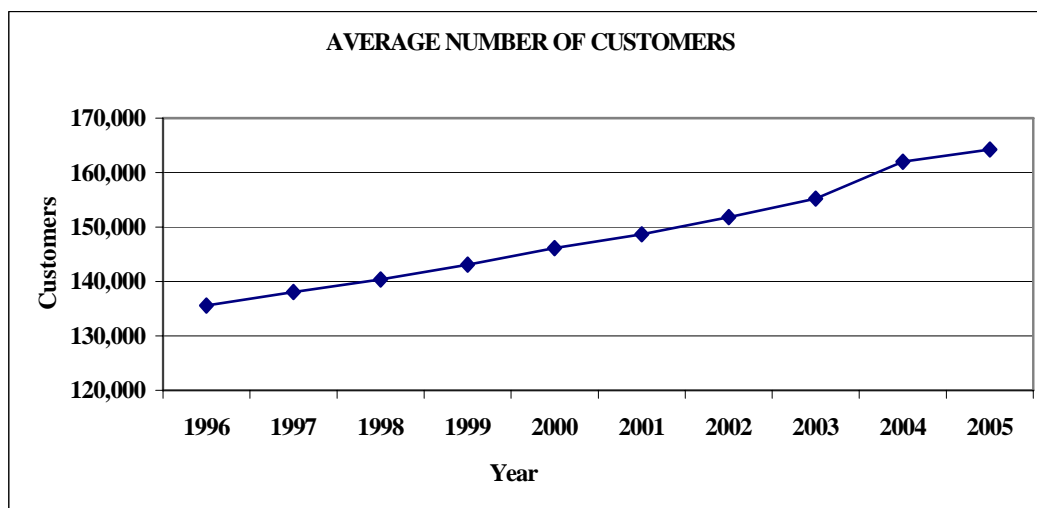
*Average Number of Customers by Fiscal Year*

<u>Class</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Residential	121,688	123,977	126,111	128,738	131,618	134,014	137,081	140,347	146,656	148,974
Commercial	12,283	12,380	12,511	12,636	12,767	12,871	12,952	13,033	13,388	13,304
Institutional	1,486	1,544	1,590	1,618	1,638	1,660	1,683	1,712	1,836	1,853
Industrial	<u>148</u>	<u>145</u>	<u>141</u>	<u>129</u>	<u>127</u>	<u>125</u>	<u>124</u>	<u>121</u>	<u>122</u>	<u>114</u>
Total	<u>135,605</u>	<u>138,046</u>	<u>140,353</u>	<u>143,121</u>	<u>146,150</u>	<u>148,670</u>	<u>151,840</u>	<u>155,213</u>	<u>162,002</u>	<u>164,245</u>

**BY METER SIZE**

*Average Number of Customers by Fiscal Year*

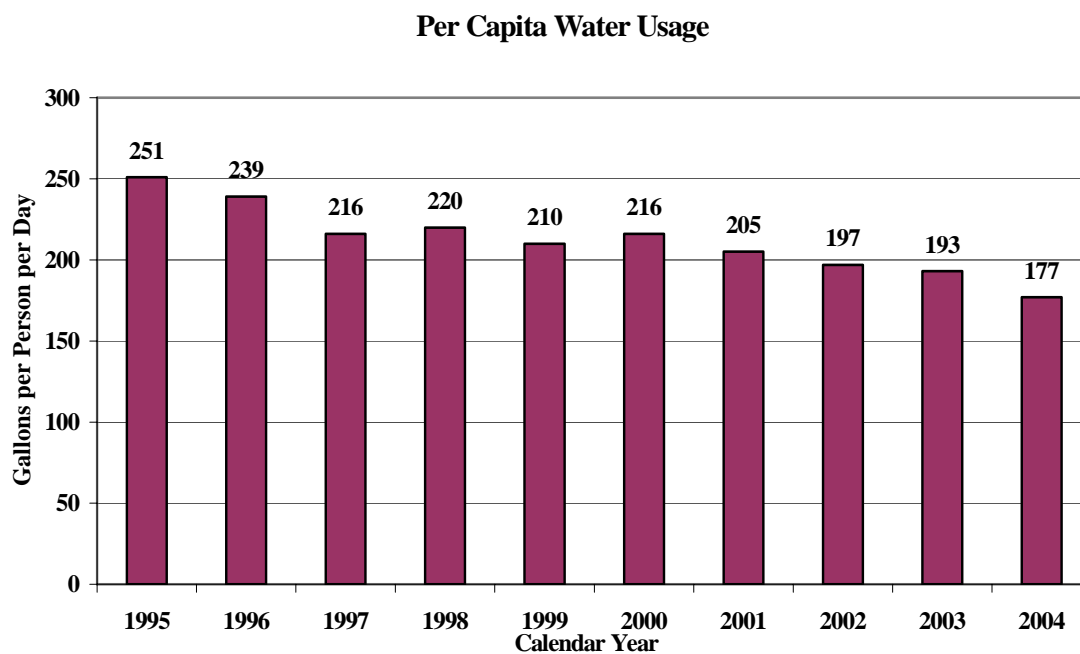
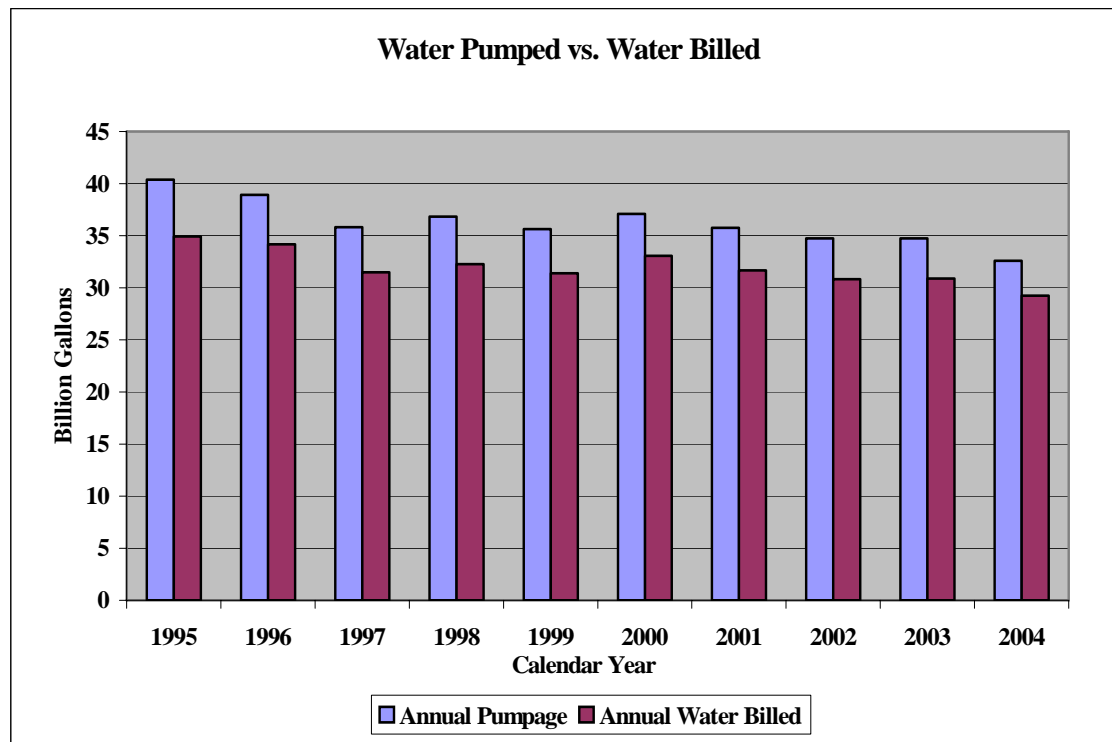
<u>Meter Size</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
¾"	110,862	113,434	115,818	118,730	121,854	124,523	128,192	132,387	139,351	142,018
1" and 1 ¼"	20,690	20,478	20,290	20,076	19,899	19,692	19,153	18,321	17,863	17,588
1 ½"	1,759	1,773	1,805	1,817	1,838	1,846	1,854	1,847	1,854	1,879
2"	1,638	1,698	1,740	1,769	1,822	1,868	1,892	1,905	1,958	1,997
3"	346	357	378	401	404	406	410	412	524	419
4"	214	222	228	233	238	242	246	247	311	251
6"	53	54	54	55	55	55	55	55	73	52
8" and over	<u>43</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>38</u>	<u>38</u>	<u>39</u>	<u>68</u>	<u>41</u>
Total	<u>135,605</u>	<u>138,056</u>	<u>140,353</u>	<u>143,121</u>	<u>146,150</u>	<u>148,670</u>	<u>151,840</u>	<u>155,213</u>	<u>162,002</u>	<u>164,245</u>



Source: Albuquerque Bernalillo County Water Utility Authority



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
**WATER CONSUMPTION**  
**LAST TEN CALENDAR YEARS**

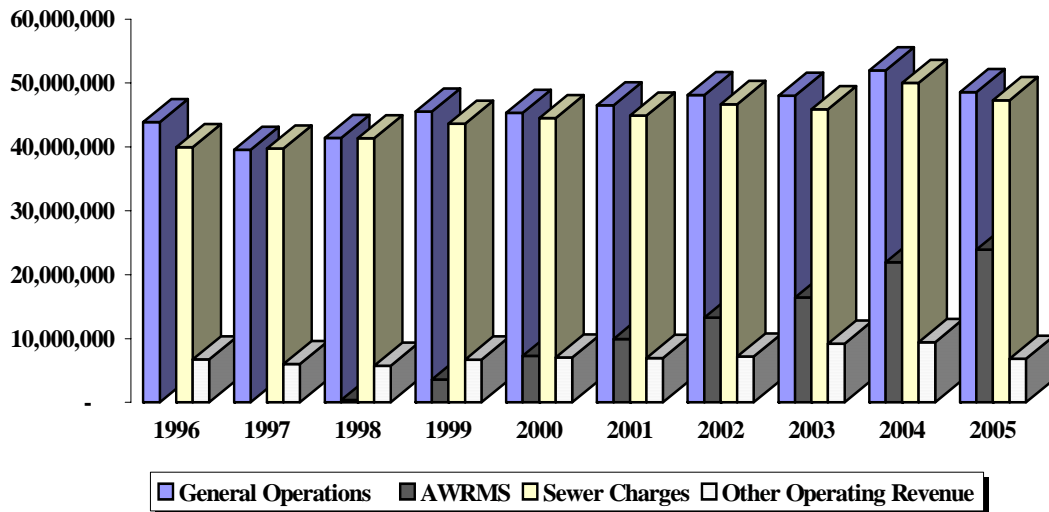


Source: Albuquerque Bernalillo County Water Utility Authority



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
**REVENUE FROM WATER AND SEWER CHARGES AND OTHER OPERATING REVENUE**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Revenue From Water Charges		Revenue From Sewer Charges	Other Operating Revenue <sup>(2)</sup>	Total Operating Revenue
	For General Operations	For AWRMS <sup>(1)</sup>			
1996 <sup>(3)</sup>	\$ 43,862,526	\$ n/a	\$ 39,952,882	\$ 6,740,420	\$ 90,555,828
1997 <sup>(3)</sup>	39,552,340	n/a	39,771,944	5,998,929	85,323,213
1998 <sup>(3)</sup>	41,392,409	393,705	41,333,109	5,728,507	88,847,730
1999 <sup>(3)</sup>	45,515,854	3,610,515	43,605,325	6,704,614	99,436,308
2000 <sup>(3)</sup>	45,346,424	7,310,019	44,487,321	7,051,933	104,195,697
2001 <sup>(3)</sup>	46,504,223	9,954,245	44,898,231	6,966,656	108,323,355
2002 <sup>(3)</sup>	48,115,849	13,276,044	46,691,595	7,188,885	115,272,373
2003 <sup>(3)</sup>	48,027,213	16,410,278	45,893,219	9,185,099	119,515,809
2004 <sup>(4)</sup>	51,968,803	21,950,195	50,012,413	9,437,552	133,368,963
2005 <sup>(4)</sup>	48,560,930	23,904,227	47,310,366	6,846,660	126,622,183



(1) These revenues are attributable to rate increases adopted by City Council to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy ("AWRMS").

(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

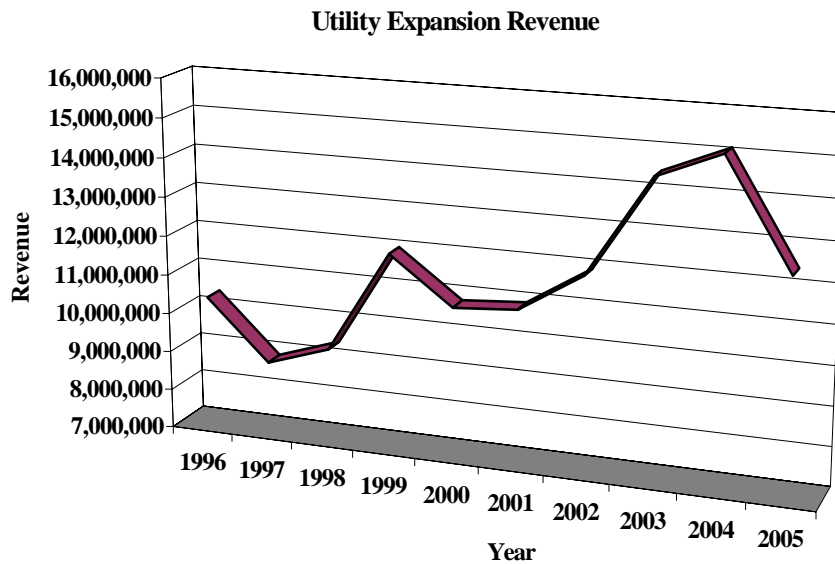
(3) Source: City of Albuquerque Comprehensive Annual Financial Report.

(4) Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**REVENUE FROM UTILITY EXPANSION CHARGES**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Utility Expansion Charge Revenues</u>
1996 <sup>(1)</sup>	\$ 10,361,883
1997 <sup>(1)</sup>	8,829,595
1998 <sup>(1)</sup>	9,362,686
1999 <sup>(1)</sup>	11,967,761
2000 <sup>(1)</sup>	10,780,053
2001 <sup>(1)</sup>	10,908,556
2002 <sup>(1)</sup>	11,908,616
2003 <sup>(1)</sup>	14,432,966
2004 <sup>(2)</sup>	15,111,935
2005 <sup>(2)</sup>	12,404,189



(1) Source: City of Albuquerque Comprehensive Annual Financial Report.

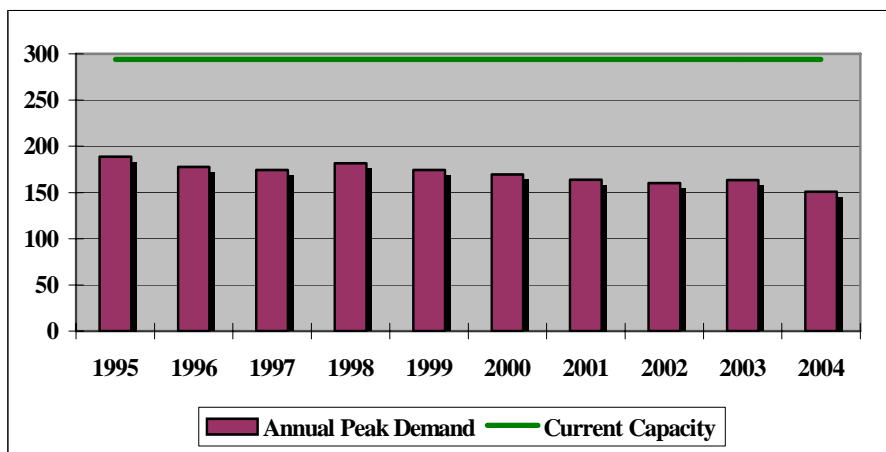
(2) Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
**WATER SYSTEM ANNUAL PEAK DEMAND AND TOP TEN CUSTOMERS**

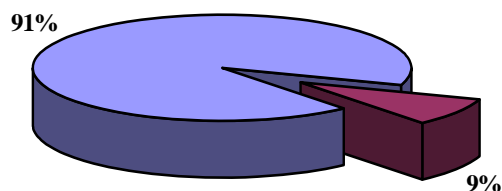
**WATER SYSTEM ANNUAL PEAK DEMAND**

- ◆ *Current system peak demand of 164 MGD*
- ◆ *Current system capacity of 294 MGD*
- ◆ *System's current peak demand is 55% of capacity*



**WATER SYSTEM TOP TEN CUSTOMERS**

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2005 Revenue</u>	<u>% of Total Revenue</u>
1. City of Albuquerque	649,754	\$ 3,960,072	5.03%
2. Albuquerque Public Schools	391,905	1,323,703	1.68%
3. Tanoan Country Club	237,526	467,234	0.59%
4. University of New Mexico Physical Plant	160,344	563,406	0.72%
5. Balloon Fiesta Park	92,477	146,984	0.19%
6. Sumitomo Sitix	75,875	401,495	0.51%
7. Sun Village Apartments	73,476	134,994	0.17%
8. General Mills	69,910	141,609	0.18%
9. Tri-Gas	68,114	220,304	0.28%
10. New Mexico State Fairgrounds	66,645	168,950	0.21%
<b>Total</b>		<b>\$ 7,528,751</b>	<b>9.57%</b>
<b>Total Revenue for System</b>		<b>\$ 78,704,817</b>	

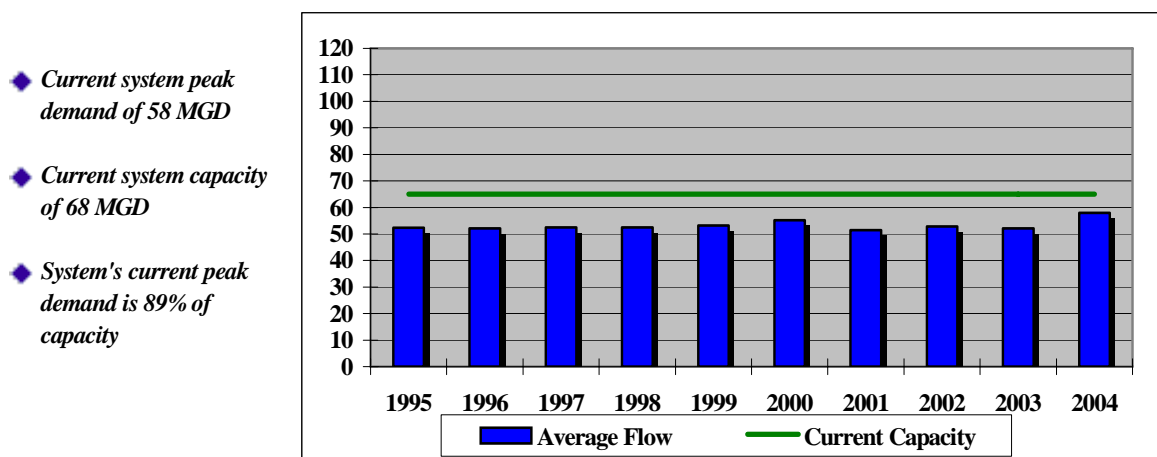


Source: Albuquerque Bernalillo County Water Utility Authority



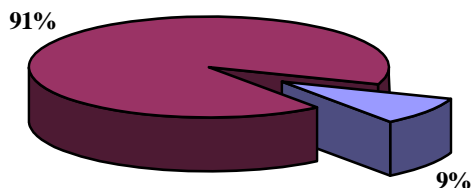
**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW AND TOP TEN CUSTOMERS**

**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW**



**WASTEWATER SYSTEM TOP TEN CUSTOMERS**

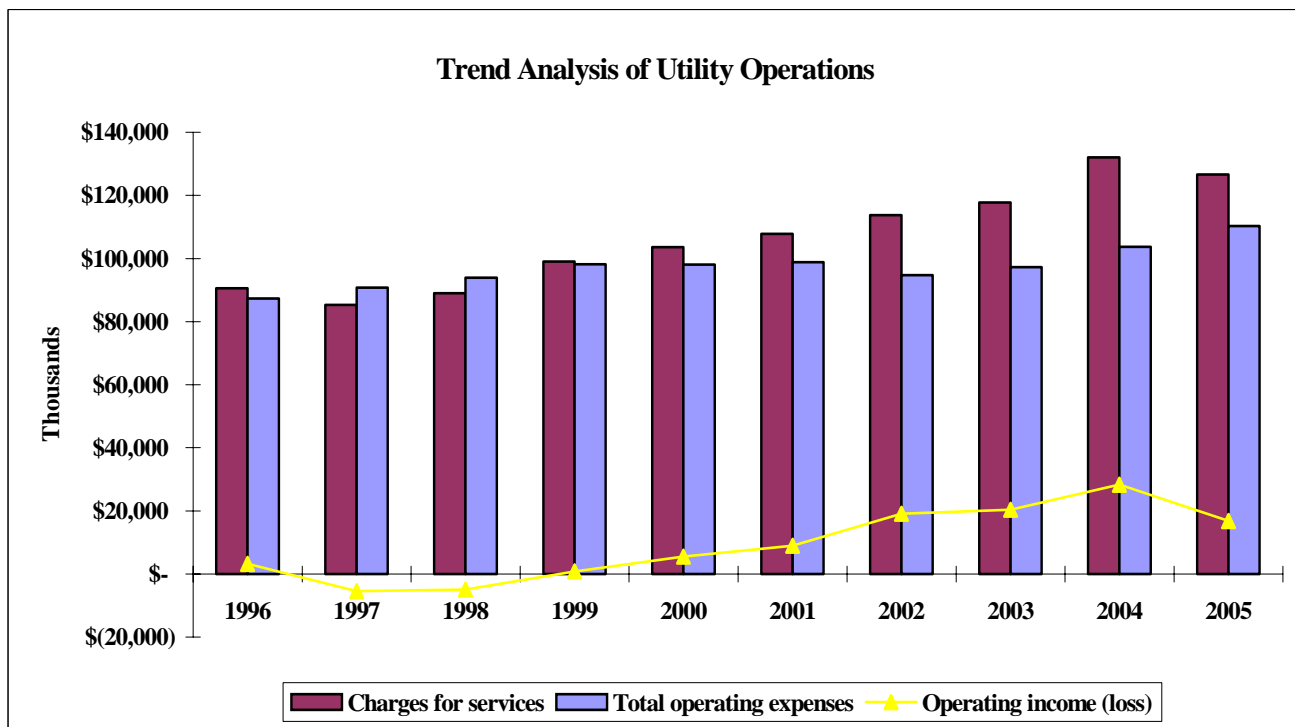
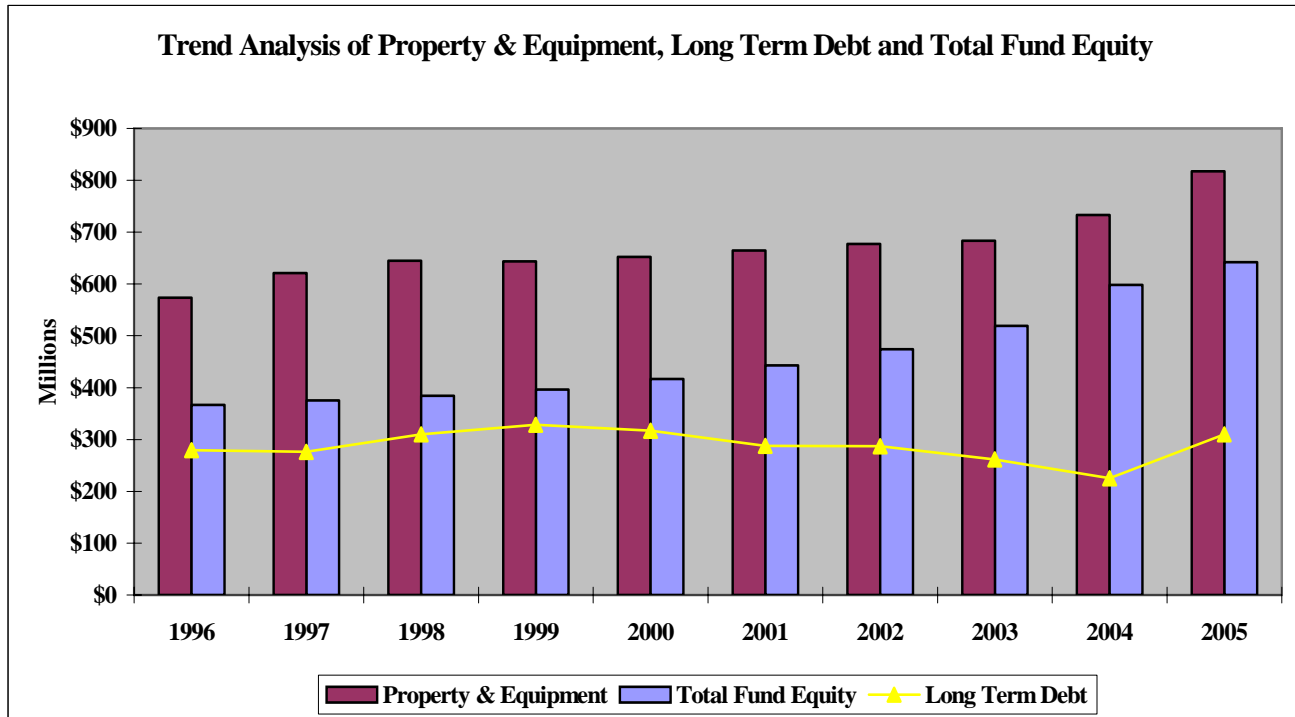
<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2005 Revenue</u>	<u>% of Total Revenue</u>
1. New Mexico Utilities	1,748,131	\$ 2,375,551	5.02%
2. Kirtland Air Force Base	777,233	1,063,253	2.25%
3. University of New Mexico Physical Plant	214,418	215,946	0.46%
4. Sandia Heights	64,953	65,728	0.14%
5. Rio Grande Zoo	64,632	152,768	0.32%
6. University of New Mexico Hospital	51,833	124,800	0.26%
7. Creamland Dairies	42,848	72,489	0.15%
8. Four Hills Mobile Home Park	39,336	78,484	0.17%
9. Public Service Company of New Mexico	35,360	96,600	0.20%
10. Sumitomo Sitix	29,453	54,562	0.12%
<b>Total</b>		<b>\$ 4,300,181</b>	<b>9.09%</b>
<b>Total Revenue for System</b>		<b>\$ 47,310,366</b>	



Source: Albuquerque Bernalillo County Water Utility Authority



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
MISCELLANEOUS TREND ANALYSIS  
LAST TEN FISCAL YEARS



Source: Albuquerque Bernalillo County Water Utility Authority



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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE**  
**REVENUE BOND DEBT SERVICE COVERAGE**  
**LAST TEN FISCAL YEARS**  
(In thousands of dollars)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Water Utility Authority Revenue Bonds (1)</b>				
Revenues	\$ 109,312	\$ 99,616	\$ 102,802	\$ 114,446
Expenses (2)	48,489	49,915	50,122	52,971
Available for debt service	60,823	49,701	52,680	61,475
Debt service	27,398	27,654	31,343	38,599
Debt service coverage ratio	2.2	1.8	1.7	1.6

(1) 1995 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund.

(2) Not including depreciation, amortization, payments in lieu of taxes, and bad debt expense.



<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>		Ratio Required <u>2005</u>
\$	118,818	\$	125,002	\$	129,425	\$	139,937	\$	150,224	\$	144,074	
	53,114		57,815		55,356		57,315		55,892		59,005	
	65,704		67,187		74,069		82,622		94,332		85,069	
	43,511		44,703		45,919		47,516		49,179		52,279	
	1.5		1.5		1.6		1.7		1.9		1.6	1.3



## **STATE COMPLIANCE AND OPERATIONAL FINDINGS**



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**JOINT POWERS AGREEMENT**  
**June 30, 2005**

<u><b>Joint Powers Agreement</b></u>	City of Albuquerque and Bernalillo County
<u><b>Participants</b></u>	Albuquerque Bernalillo County Water Utility Authority/City of Albuquerque/County of Bernalillo
<u><b>Responsible Party</b></u>	Albuquerque Bernalillo County Water Utility Authority
<u><b>Description</b></u>	Gives the Albuquerque Bernalillo County Water Utility Authority the power to issue revenue bonds by using the common revenue bonding power of the City and County
<u><b>Beginning Date</b></u>	February 25, 2004
<u><b>Ending Date</b></u>	Ongoing
<u><b>Project Amount</b></u>	As needed for expansion or improvement of the utility system
<u><b>Current Year Contributions</b></u>	N/A
<u><b>Audit Responsibility</b></u>	N/A



**CITY OF ALBUQUERQUE  
WATER AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**05-01 Fixed Assets – Albuquerque Bernalillo County Water Utility Authority**

*Condition.* During our testwork of fixed assets for the Water Utility Authority, it was determined that additions to capitalized meters were understated.

*Criteria.* Asset additions should be reconciled to supporting documentation.

*Cause.* The Water Utility Authority has not implemented procedures reconciling meter additions per the books to supporting documentation.

*Effect.* Assets are understated.

*Recommendation.* We recommend the Water Utility Authority implement procedures ensuring that financial data agrees to supporting documentation.

*Management Response.* We agree with the finding. The Utility's billing system generates a report that shows all new meters installed during the fiscal year. These reports are used by New Services, who provides this information to the Water Systems Division to calculate the capitalized meter amount. New Service's provided Water Systems the incorrect meter count. The Utility is implementing policy in which when New Services provides the meter count to Water Systems they must also provide the reports to support the count given. Water Systems will not use any information from New Services without the proper support. All capitalized meter information submitted the City of Albuquerque's accounting group will include all the appropriate support as well.



**CITY OF ALBUQUERQUE  
WATER AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2005**

**05-02    Audit Report Due Date**

*Condition.* The report was not submitted by the due date.

*Criteria.* Per the 2.2.2.9A (1)(d) NMAC Audit Rule 2005, *Requirements for Contracting and Conducting Audits of Agencies*, annual audit reports are to be received in the Office of the State Auditor on or before December 1st.

*Cause.* Staffing changes

*Effect.* The annual audit report was not submitted to the Office of the State Auditor by the due date.

*Recommendation.* We recommend that the required approval be obtained in advance of the Office of the State Auditor's due date in order to submit the annual audit report by the due date

*Management Response.* We concur with this finding and are taking actions to prevent this situation in the future.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**EXIT CONFERENCE**  
**June 30, 2005**

An exit conference was held on January 6, 2006, and attended by the following:

**AUTHORITY Personnel:**

**Alan Armijo**  
County Commissioner, Board Chairman

**Mark Sanchez**  
Executive Director

**Tom Ortiz**  
Financial Analyst

**Roy Robinson**  
General Manager

**Stanley Allred**  
Finance Manager

**NEFF & RICCI, L.L.P. Personnel:**

**Valerie Allen**  
Partner

**CITY Personnel:**

**Cameron Hull**  
Accounting Officer

**Angela Ekofo**  
Accounting Manager, Financial Reporting

**Nela Wilkinson**  
Principal Accountant